

CITY OF
LYNCHBURG, VIRGINIA



THE AVIARY

From an original painting by Leo Szydlowski

Comprehensive Annual Financial Report
For the fiscal year ended June 30, 2003

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2003

**CITY OF LYNCHBURG,
VIRGINIA**

Prepared by:
Financial Services

CITY OF LYNCHBURG, VIRGINIA
Comprehensive Annual Financial Report
Year Ended June 30, 2003

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INTRODUCTORY SECTION



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FINANCIAL SERVICES DEPARTMENT

October 17, 2003

The Honorable Mayor and Members of the City Council
City of Lynchburg, Virginia

The Comprehensive Annual Financial Report (CAFR) for the City of Lynchburg, Virginia, (City) for the year ended June 30, 2003, is hereby submitted in accordance with the *City Code* and state statutes. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position, results of operations, and cash flows, as applicable, of the various funds and component units of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The CAFR is presented in four sections: Introductory, Financial, Statistical, and Compliance. The Introductory Section, which is unaudited, includes this Letter of Transmittal, the City's organization chart, and a list of principal officials. The Financial Section includes: Management's Discussion and Analysis (MD&A); basic financial statements consisting of government-wide and fund financial statements; and, the combining and individual fund financial statements and schedules. The Statistical Section, which is unaudited, includes selected financial and demographic information generally presented on a multi-year basis. The Compliance Section includes the auditor's reports on grant compliance and testing of internal controls in conformity with Generally Accepted Auditing Standards; *Government Auditing Standards*, issued by the Comptroller General of the United States, U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and requirements of the Auditor of Public Accounts of the Commonwealth of Virginia.

The financial reporting entity includes all funds of the primary government (i.e., the City of Lynchburg), as well as all of its component units. Component units are legally separate entities for which the primary government is financially accountable. The City provides a full range of municipal services including general administration, judicial functions, police and fire protection, parks and recreation, libraries/culture, health, juvenile and social services, maintenance of streets and highways, economic development, and community planning. The City also owns and operates water and sewer systems, a municipal landfill, and a regional airport. The City's discretely presented component units, Lynchburg City Schools (Schools), Business Development Centre, Inc., and Greater Lynchburg Transit Company, provide public education, various small business services, and public transportation, respectively, to the citizens of the City. These component units are included in separate columns in the City's government-wide financial statements to emphasize that they are legally separate from the City and to differentiate their financial position and results of operations from that of the City. Each of these component units' governing bodies is appointed by City Council. Excluded are the financial statements of the Lynchburg Redevelopment and Housing Authority and the Industrial Development Authority of the City of Lynchburg. These organizations are associated with the City, but are legally separate entities, which operate with considerable autonomy outside the direct control of City Council and for which the City is not financially accountable. Also, excluded are the financial statements of the Blue Ridge Regional Jail Authority and the Central Virginia Community Services Board, which are jointly governed organizations. Additional information regarding the City's financial status can be found in the MD&A section of this Report.



Local Economic Condition and Outlook

Approximately 120 miles west of the state capital, Richmond, and midway between the cities of New York and Atlanta, Lynchburg is an important commercial center for a four-county region. The City benefits from an economy that has been relatively stable and remains diversified among the manufacturing, service, technology, and trade sectors.

City Council and management of the City have an aggressive economic development program that is committed to creating jobs for its citizens and generating new sources of tax revenue by strengthening and diversifying the local economy through the attraction of new businesses and the retention and expansion of existing businesses. This commitment, the strategic location of the City, a strong workforce, a moderate climate, and desirable available real property make Lynchburg an attractive location for an ever-increasing mix of business.

The City, through its Industrial Development Authority, has a program of local economic development incentives designed to enhance the City's competitiveness for new industry and business and to support the expansion of existing basic employers. The performance-based incentives provide for, but are not limited to, consideration of site cost reduction, site preparation costs, cash grants/investments, and the potential for water, sewer, and solid waste contracts for large volume users. New and existing businesses must satisfy certain criteria for amounts of incremental investment and/or increased full-time job equivalents to be entitled to locally funded incentives. The program is designed also to provide matching funds to state incentives. Since inception of the program in 1994 and through June 30, 2003, a total of \$10,507,792 in local economic development incentives has been awarded. The City also owns and manages two industrial parks with a total of 600 acres of which 178 acres are available for development. The Lynchburg Center for Industry is approximately 90% developed and the Lynchpin Industrial Center has 50% occupancy.

The City also provides support to the Business Development Centre, Inc., which was established to help small start-up businesses with one-stop support services. The Centre provides counseling, advising and training services as well as office or industrial space at the facility. Additionally, there are loan programs administered by the Centre that are available to finance eligible small businesses.

The City understands the importance of creating an environment that is business friendly and is working hard to improve services to the business community while continually searching for innovative ways to assist businesses. In March 2002, Lynchburg City Council approved a Technology Zone Ordinance. The Commonwealth of Virginia allows cities, counties and towns to establish, by ordinance, one or more technology zones to attract growth in targeted industries. Qualified businesses locating or expanding in such a zone may receive local permit and user fee waivers, local tax incentives, and capital investment grants. Incentives may be provided for up to ten years. The City established two technology zones, which are the Downtown Technology Zone, and the Lynchpin Technology Zone located in the Lynchpin Industrial Center. The City continues to market new businesses, particularly in the downtown and industrial parks, which are designated as Enterprise Zones and Technology Zones. Numerous business owners have taken advantage of the benefits of these zones, some of whom indicated that they would not have located in Lynchburg if not for these zones.

Retail development continues to expand in the Route 29 (Wards Road) corridor, which remains the retail regional hub serving Lynchburg and the four surrounding counties. Target, Best Buy, Wal-Mart, and Sam's Club are the anchor stores in the corridor, driving the addition of approximately five new retailers annually including national chain stores and restaurants.

In recognition of the shared commitment and belief that economic growth in any of the region's communities benefits the entire region, business, government, and community leaders of the City and surrounding jurisdictions continue to participate in regional economic development activities. In an effort to reduce redundancy and present a more united front, two regional groups, Virginia's Region 2000 and the Region 2000 Partnership, were merged into a single entity, the Region 2000 Economic Development Partnership, which will receive administrative support from the Region 2000 Regional Commission. The region's Workforce Investment Board, which focuses on skills training and workforce development, operates under a similar arrangement bringing all regional economic development activities under one umbrella organization. Supported through voluntary contributions from participating businesses, organizations, and jurisdictions that contribute on a per capita basis, the Region 2000 Economic Development Partnership will continue to combine public and private sector interests to support an ongoing local, state, national, and international economic development program in central Virginia.

The City experienced limited growth in the industrial, commercial, technology, and retail sectors during FY 2003. Bausch & Lomb, Inc., the global eye care company, more than doubled the size of its Distribution Center and added approximately 35 jobs. The Lynchburg Distribution Center now warehouses and ships Bausch & Lomb contact lenses, as well as products used in eye surgery to United States and international customers. The Lynchburg Industrial Development Authority managed the design and construction of the 39,000 square foot addition, which was completed in February 2003. Furthermore, in February, M/A-COM, a worldwide leader in the wireless systems industry, relocated to a new 152,000 square foot facility in Lynchpin Industrial Park. The company will utilize the facility for research and development, training, and office space. Framatome ANP (Advanced Nuclear Power), Inc. announced an expansion in its operations in the City. The company will invest \$12 million and employ 200 additional engineers over the next 30 months.

The Parker Hannifin Corporation expanded operations in Lynchburg by hiring approximately 50 new employees and investing in new machinery and equipment. The Norcraft Companies, L.L.C. invested over \$3 million in its acquisition and upgrade of a manufacturing facility in the City and employed approximately 150 new employees. Waterford Furniture and Westover Dairy also expanded operations during this time period. The expansions related to these four companies totaled over \$8,000,000. Work is continuing on the \$200,000,000 residential, institutional, retail, and commercial development known as Wyndhurst.

The economic downturn has had an impact upon the economy. Due to a corporate decision to move operations out of the United States, Ericsson, Inc. continued to downsize during this period. In the fall of 2002 Hobby Lobby Stores, Inc. purchased the former Ericsson manufacturing facility with the stated purpose of donating the land to Jerry Falwell Ministries for an expansion of Liberty University, Thomas Road Baptist Church, and related ministries. The City is working with the Ministries on plans for these activities and associated commercial development planned for the former Ericsson site.

Major Initiatives and Accomplishments

Comprehensive Plan

In September 2002, City Council approved a new Comprehensive Plan. Virginia law requires that each city, town, and county have a Comprehensive Plan and that it be reviewed at least every five years. As adopted, the Plan provides the City with a framework for consistent decision-making in the areas of land use, public facilities and utilities, resource protection, housing, transportation, economic development, and capital improvements. The City's Planning Commission is responsible for implementing the Plan and City Council is the adopting authority. The vision, goals, and objectives included in the Plan are being used to guide the implementation of the Plan, beginning with strategies included in the five-year Implementation Program. This Program includes revisions to the City's zoning ordinance, subdivision control ordinance, and other ordinances, as necessary. At the same time, neighborhood conservation plans, a transportation master plan, corridor studies, resource conservation plans, and revitalization area plans are being prepared and adopted as part of the Comprehensive Plan. City Council adopted the Tyreanna/Pleasant Valley Neighborhood Plan, which is one of the first projects to be completed under the new Plan. Portions of the City's Zoning Ordinance are being revised and work is underway on preparation of a plan for the Fifth Street corridor. City staff also has participated in development of a regional greenways and blueways plan that will incorporate the City's greenways into the regional system.

Downtown and Riverfront Development/Redevelopment

The City continues into its third year of implementing elements of the Downtown/Riverfront Master Plan adopted in May 2001. Sasaki & Associates and Economics Research Associates developed the twenty-year plan encompassing a sixty-block area. Implementation continues to focus on four areas: infrastructure/public space improvements, culture and entertainment, commercial development, and government projects.

Phase One of the infrastructure improvements is nearly complete including streetscape improvements for the Ninth Street Corridor (the major north-south avenue through downtown) and adjoining side streets. The improvements include new stone and brick sidewalks, street trees, historic lampposts, benches, and other amenities. The Ninth Street corridor improvements also include the completion of a major Combined Sewer Overflow (CSO) project. Four blocks and the famous Monument Terrace grand stairway will be completed by June 2004. Phase One of the public space improvements is complete and includes initial components of the Riverfront Park. These improvements include the transformation of a former railroad yard to a large lawn for festivals and light sports, complimented by street trees, and the Jefferson Street promenade. The goal of the infrastructure/public space improvements is to attract more activity and private development in the downtown area. The public investment for the projects totals nearly \$4 million.

The first cultural project to open in March 2001 was Amazeement Square Children's Museum. The museum has attracted over 100,000 visitors annually, well above projections of only 30,000 visitors per year. The museum continues to be a popular destination for families throughout the Commonwealth and has boosted sales at local shops, restaurants, and hotels. A second cultural project that opened two years ago is the Renaissance Theater. The repertory theater continues to host sell-out crowds for a variety of dramas and musicals. The third cultural project to open recently in downtown is the Dance Theatre of Lynchburg. The studio offers a variety of dance classes for all ages and levels, and holds performances throughout the year, providing community youth the opportunity to gain first hand performing arts experience. A fourth cultural project is Riverviews Artspace, a combination of an artist center (galleries and studios), retail space (café and art supply store), and housing (36 loft apartments). The project will be completed in October 2003 and will be the first major market rate housing project in the downtown in over thirty years. It is a critical component of the Master Plan given that downtown residents add twenty-four/seven life to the streets and increase demand for retail and entertainment. A fifth cultural project is the Academy of Music Theater, which is in the midst of an aggressive fund raising campaign to raise the remaining \$4.6 million of a \$9.2 million goal to restore the 1905 opera house. The theater will seat 900 guests and hold a host of cultural programs serving as a regional and state performing arts center. The recent merger of the two largest arts and cultural organizations in the City, the Fine Arts Center and the Academy of Music, into the Academy of Fine Arts promises to bring new energy into the campaign to restore this important downtown property.

Private developments include new and expanded restaurants, stores, and offices. In addition, a new lodging, dining and meeting facility, the BluffWalk Center, began construction in 2003. It will include a boutique hotel with forty guestrooms, a conference center, a high-end restaurant, and a microbrewery in two renovated former shoe factory buildings. Two new loft apartment housing projects also are expected to begin construction in the next year. One project will include thirty units and another will include sixty-seven units plus retail. One of the projects is located adjacent to the City's Community Market, which will further enhance the historic market and add more "critical mass" in specialized retail for downtown (i.e., crafts and antiques).

Government projects include a new facility for the City's Department of Human Services housing 165 employees in the heart of downtown that was completed in April 2003. The new facility is an excellent example of adaptive reuse of a historic building (circa 1911) that once served as a warehouse and dry goods business on the riverfront. The \$9.5 million project was accomplished through a limited partnership, which enabled the use of \$1.1 million in historic tax credits. The relocation of the Human Services workforce downtown creates a convenient government center and serves as a catalyst for further economic development downtown, drawing more than 200 people to the area daily. A new \$14 million federal courthouse and post office are under construction and expected to be completed in 2004. The complex will employ seventy-five to one hundred people in the post office, the courts, and other federal departments such as the U.S. Marshall Service, the Federal Bureau of Investigations (FBI), and the Internal Revenue Service (IRS).

Combined Sewer Overflow (CSO)

In August 1994 the Virginia Department of Environmental Quality (DEQ) issued the City's discharge permit and a special consent order which established a compliance schedule and project priorities for implementation of a CSO Control Plan. The compliance schedule does not contain fixed dates for implementing the CSO Control Plan, but rather provides for implementation that reflects the City's financial capability. Since July 1, 1993 through June 30, 2003, the City has appropriated over \$95 million for CSO control and abatement projects. This funding has resulted in the closing of 92 of the 132 CSO outfalls with a 77% reduction of CSO volume. During FY 2003, capital expenditures for CSO were approximately \$5.2 million and 4 additional CSO outfalls were eliminated.

In FY 2003, the City received federal and state grants totaling approximately \$3.2 million that will be used to supplement the existing CSO Program. The City's CSO Control Plan was updated in 2000 and sewer separation continues to be the long-term solution to the City's CSO concerns. The total estimated cost of the CSO Control Plan in 1999 dollars was \$276 million with \$199 million in direct CSO abatement costs. In conjunction with the CSO abatement program, projects that are optional include costs of \$25 million for replacement of water system infrastructure and \$52 million for street and road improvements in those areas of the City where CSO projects are being undertaken. The City faces continued challenges in its sewer operations. With the downturn in the economy and consumption reductions by large industrial customers, added financial burdens are placed on the Sewer Fund. The lost revenue will likely be recovered from increased rates on residential and commercial customers who have experienced significant rate increases over the past eight years to fund the remediation of the CSO problem. In addition, progress in CSO abatement is further challenged by the loss of state support that had previously been used to match federal grants.

Education

Educational achievements include State of Virginia Department of Education notification that twelve of the sixteen public schools were fully accredited, two schools met state standards, and two schools were provisionally accredited with improvement needed in one area. Students' Scholastic Aptitude Test (SAT) scores continue to exceed both the state and national averages. Also, more students attained a score of three or higher on Advanced Placement Tests than ever before. Nine of the eleven elementary schools met the 100% Adequate Yearly Progress (AYP) requirements for this first year of school accountability under the No Child Left Behind Act of 2001.

Infrastructure

In addition to the infrastructure projects outlined in the Downtown and Riverfront Development/Redevelopment section of this Letter, the City continues to focus on major infrastructure projects that are identified in the following summary.

The \$10.6 million renovation of Linkhorne Middle School was substantially complete for the opening school year in September 2002. Renovations included upgrading the heating, ventilation, and air conditioning (HVAC), plumbing and electrical systems, window and roof replacements, science casework, classroom renovations, and other changes to comply with the Americans with Disabilities Act.

The renovation and expansion of the City's oldest high school, E. C. Glass, began during the summer of 2003. Fourteen science classrooms will be added and extensive renovations include electrical and plumbing upgrades, new HVAC systems, new windows, installation of elevators, classroom and gymnasium renovations, and other changes to comply with the Americans with Disabilities Act. A limited partnership has been formed to utilize state historic tax credits as part of an overall \$28.7 million financing plan. Construction is expected to be complete by April 2006.

Reconstruction work began at the City Stadium to enhance the baseball facility as a local entertainment and tourism destination, home to the Lynchburg Hillcats, a Class A affiliate of the Pittsburgh Pirates. A Stadium Enterprise Fund was established so that revenues from the Stadium will be dedicated to fund debt service and operating expenditures. Renovations will ensure compliance with the Americans with Disabilities Act and Professional Baseball League Standards, and include concessions and seating upgrades. Project costs are estimated at \$6.6 million and construction is expected to be complete by January 2004.

In late FY 2003, the City was near completion of a major water distribution line extension project along Route 460 to the eastern City boundary with Campbell County. This project, along with a complementary project in Campbell County, will provide City water to major industrial customers in the Mount Athos area. The City has an agreement with Campbell County that guarantees payments to the City to fund the project's debt service.

Information Technology

Throughout FY 2003, the City expanded and enhanced its use of information technologies to improve services and reduce costs. Several e-government services were added, including the ability for customers to pay water utility bills via the Internet or through a voice response system. An interactive capability was added to post City job openings, which allows candidates to apply for jobs through the City's web site.

The City made a significant upgrade to its telecommunications infrastructure, upgrading all of its core network switches and transitioning to a gigabit Ethernet network backbone. This upgrade provided the foundation for the City to implement its first Voice Over Internet Protocol (VoIP) telephone system. The VoIP system was implemented to support the downtown relocation of the Human Services organization to their new location at 822 Commerce Street. Based on this positive experience, the VoIP system will be implemented in most City locations, resulting in an expected 30% to 40% net reduction in ongoing telephone expenses.

Public Safety

The Lynchburg Police Department (LPD) received re-accreditation through the Commission on Accreditation for Law Enforcement Agencies (CALEA) in November 2002. Receiving accreditation by CALEA demonstrates the accomplishments of the members of the LPD and their continuing commitment to meeting the highest standards of professional law enforcement. The City is a Certified Crime Control Community and crime rates have reached historical lows with an overall decline of 9.84%. Statistics indicate that violent crimes decreased 12.62%, property crimes decreased 7.43%, and drug crimes decreased 1.17%. Collaboration and cooperation among law enforcement agencies at the local, state, and federal level have proven to be an effective measure to build and maintain a safe community.

Citizen involvement is equally vital in addressing crime issues. The Safe Neighborhood Initiative (SNI) is an example of citizens and government working together to solve community issues. SNI's mission is to cultivate and preserve healthy, safe, and vibrant neighborhoods by bringing people and resources together to enhance the quality of life and services provided to City neighborhoods. SNI is a City-wide comprehensive collaborative networking approach to revitalizing and making neighborhoods safe places to live, learn, work, and play. SNI is comprised of local partnerships with businesses, citizens, civic groups, faith based ministries, government, nonprofit agencies, and neighborhood associations whose unified purpose is to build "community" at the neighborhood level and to improve the quality of life for citizens, families, and youth through promoting and providing an array of services that address the physical, social, and economic health of City neighborhoods. In September 2002, the Mayor's Safe Neighborhoods Summit provided a forum for citizens to communicate concerns which were later developed by the Mayor's Safe Neighborhoods Steering Committee into eight major vision points. These points are: (1) Youth Development, (2) Social Intervention, (3) Parenting and Family Enrichment, (4) Neighborhood Building/Economic Development, (5) Communications and Technology, (6) Public Safety, (7) Faith-Based Partnerships, and (8) Transportation. Successes thus far include partnering with Lynchburg College to develop a youth gang research and outreach agenda; partnering with the Alliance for Families and Children agency which sponsored a three day Youth Connection Conference at the middle school focused on drug prevention and neighborhood safety; and, sponsoring an "And-1 Celebrity Street Basketball" game where Lynchburg neighborhood superstars successfully competed against New York elite basketball stars with over 2,000 in attendance.

The Fire Department completed its Strategic Plan, a two year initiative that has involved departmental personnel from all divisions and levels. The Plan provides direction for in-depth future initiatives and organizational development. A comprehensive set of performance measurement tools will allow departmental leaders to monitor the progress and success of each strategic initiative. Also, a fire house safety trailer was purchased with a federal grant award. Incorporating this trailer into the Fire Department's educational program has proven to be an effective and enjoyable approach to deliver the home fire safety message to school aged children and others in the City and surrounding communities.

Public Works

In February 2003, City Council approved a new semi-automated trash collection service for Lynchburg residents. The service includes new City provided trash carts equipped with wheels for easy maneuverability. Residents have the choice of 32 or 64 gallon carts to be delivered in the fall of 2003 to each household. The semi-automated service reduces the potential for employee injury; therefore, improvements are expected in the recruitment and retention of personnel. Existing refuse collection trucks are being retrofitted to accommodate the new trash carts and several new refuse collection trucks are being added to the fleet. Implementation is scheduled for October 1, 2003.

Aviation

As the primary commercial service airport serving Central Virginia, Lynchburg Regional Airport plays a vital transportation role. Lynchburg Regional Airport is a full service airport, offering an array of aeronautical services including aircraft charter, maintenance and avionics, fuel services, flight training, State Police medflight services and aircraft storage. Scheduled airline service is provided through the affiliates of two major airlines, Delta and US Airways. In May 2003, supported by a Federal Aviation Administration Air Service Enhancement Grant, Delta Airlines introduced jet service at Lynchburg with three roundtrips daily to Atlanta, Georgia on the state-of-the-art Canadair Regional Jet. Ridership has increased significantly due to the new service and community efforts to ensure fare parity with competing airports. Additionally, the airport opened a new general aviation terminal building and received approval from the Federal Aviation Administration to begin the process of extending the airport's primary runway to better accommodate larger jet aircraft.

Administrative Systems' Initiatives

A revised general ledger Chart of Accounts was implemented resulting in an account structure that: complies with the Commonwealth of Virginia Auditor of Public Accounts Uniform Financial Manual's recommended account structure; facilitates production of the CAFR from the City's financial system; and, provides for organizational-wide analysis of budget and financial data.

In conjunction with the Chart of Accounts initiative, a project/grant accounting module of the financial system software was implemented for general government capital projects. When fully implemented, the project/grant accounting module will provide the City with enhanced monitoring and reporting of expenditures and revenues for capital projects and grants on a life-to-date and fiscal year basis. Implementation of enterprise funds capital projects is planned for FY 2004 as a continued expansion of the project/grant accounting module.

During FY 2003, the implementation of a major software upgrade of the water and sewer utility billing system occurred. The upgrade included the integration of that module with the general ledger of the financial system. Additionally, the fixed assets system was integrated with the general ledger of the financial system.

Prospects for the Future

The City of Lynchburg is guided by a vision that addresses the challenges of an urban central city and builds on the strengths inherent in the City and the region. A Strategic Plan, adopted in 2000 and reviewed and reaffirmed by City Council annually, calls for "a community environment second to none" characterized by stable, productive, inspired families, a superior education system, dynamic economic development, and responsive, effective local government.

Through sound fiscal management and making difficult choices, the City has weathered the national recession and made progress in fulfilling Council's vision. While there are many challenges ahead, such as the continuing fiscal crisis in Virginia's government and problems inherent in older core cities, there is a high degree of confidence that the City will overcome such challenges and continue to make improvements that benefit all of its citizens. Using guidance provided by Council, City staff is developing specific objectives toward achievement of the vision.

On the state level, the City will remain active in the Virginia First Cities Coalition pushing for a statewide urban policy, tax reform, adequate funding for education, and other shared responsibilities. Internally, efforts will continue to identify improvements in technology, processes, and employee training and development that will help the City to maintain excellent core services while addressing new opportunities in a fiscally responsible manner.

Considerable capital investment will occur in several areas. First of all, the City's commitment to the Schools' facilities will continue to require significant resources. Renovations to E. C. Glass High School will go into 2006 while smaller, but also important, improvements will be made to other Schools' facilities. Investment in downtown will continue beyond the completion of improvements in the Ninth Street Corridor with the goal of attracting significant private investment strengthening the City's tax base and creating dynamic and vibrant communities in the inner City. There is a growing feeling that downtown redevelopment is reaching the critical mass of residential, business, and institutional activities necessary for it to become self sustaining for the long term. Finally, future capital investment will occur in the CSO program and in the maintenance of the City's streets, bridges, and sidewalks.

Economic development activities will focus on promoting the City as a good place to live and work within Region 2000. Marketing efforts will target prospects for both downtown and the City's public and private industrial parks. Recognizing that economic development anywhere in the region provides benefits to Lynchburg, the City also will support marketing efforts in neighboring jurisdictions. The City will continue working to accommodate appropriate commercial development to serve the region with shopping and dining opportunities. Lynchburg Regional Airport will remain an important transportation link for the area with a longer runway for expanded service.

An important focus in the coming years will be efforts to promote vibrant and sustainable neighborhoods throughout the City. Building on the Safe Neighborhoods Initiative, community based programs will combine and coordinate existing resources in a manner designed to strengthen individuals and families.

While the challenges are many for the City, so are the opportunities for success. The City will continue to take the steps necessary to become and remain the progressive community visualized in the Strategic Plan.

Accounting System and Budgetary Controls

The City's accounting records for governmental fund type operations are maintained on a modified accrual basis with revenues being recorded when available and measurable, and expenditures being recorded when services or goods are received and the liabilities are incurred. Accounting records for the City's proprietary fund types are maintained on the accrual basis.

In developing and refining the City's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (a) the safeguarding of assets against loss from unauthorized use or disposition; and (b) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (a) the cost of a control should not exceed the benefits likely to be derived; and (b) the evaluation of costs and benefits requires estimates and judgments by management. All internal control evaluations occur within the above framework. The City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

City Council has approved financial policies to guide fiscal decision-making and to ensure continued strong financial health. In the summer and fall of 1999, Debt Management, Fund Balance, and Contributions to Non-profit Organizations Policies were adopted. In the fall 2000, a Budget Policy was adopted by City Council. In September 2001, City Council adopted an Investment Policy. Financial policies for risk management and grants are being developed for future consideration by City Council.

As required by law, each year, at least 60 days prior to June 30, the City Manager submits to City Council a recommended budget for the fiscal year beginning July 1. After an extensive budget preparation and review process, and a public hearing to receive citizen input, City Council makes its decision for the adopted budget. The budget must be adopted on or before May 15.

Risk Management

The City's Self-Insurance Plan and Risk Management Program combine self-insurance and third-party insurance coverage. The City is self-insured for workers' compensation, general liability, and automobile liability claims with insurance coverage for excess claims. The City also provides healthcare coverage through a professionally administered self-insurance program. The City has extended coverage for environmental issues and for the Lynchburg Regional Airport. Additionally, the City continues to expand its employee health and wellness program and employs an Occupational Health Nurse. Note 16 to the financial statements provides an outline of the City's Risk Management Program and related coverage.

Cash Management

The City uses a pooled cash concept to allow greater investment flexibility and consequently a better return on investments. All of the available City and Schools' cash, except for cash managed by fiscal agents, is pooled for investment purposes with maturities planned to coincide with cash needs. Cash temporarily idle during the year is invested in accordance with the Council-adopted Investment Policy. In September 2001, the City contracted with a private investment firm to assist in evaluating various investment alternatives to increase investment income. The Investment Policy's objectives are to ensure safety for the investment portfolio's principal, provide sufficient availability of funds to meet cash requirements, and maximize the investment rate of return on permitted investments in accordance with federal, state and local laws, and other regulations governing the investment of public funds.

Independent Audit

State law and *City Code* require that the financial statements of the City be audited by an independent certified public accountant selected by City Council. Cherry, Bekaert and Holland, L.L.P. has performed an audit of the Comprehensive Annual Financial Report. The independent auditor's report, which includes their opinion on the basic financial statements consisting of the government-wide and fund financial statements, is contained in the Financial Section of this Report. Cherry, Bekaert and Holland, L.L.P. also audited the component unit financial statements of Greater Lynchburg Transit Company, Business Development Centre, Inc., and Lynchburg City Schools.

Certificates of Achievement for Excellence

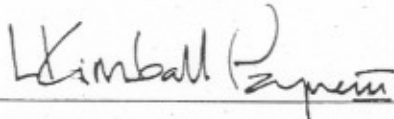
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Lynchburg for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2002. This was the seventh consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. The report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

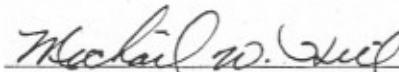
Acknowledgments

The preparation of the Comprehensive Annual Financial Report was made possible by the dedicated service of the staff of the Financial Services Department. Each member of the department has our appreciation for the contributions made by them in the preparation of this Report. Appreciation is expressed also to City Council for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,



L. Kimball Payne, III
City Manager



Michael W. Hill
Director of Financial Services

CITY OF LYNCHBURG, VIRGINIA
COUNCIL-MANAGER FORM OF GOVERNMENT

DIRECTORY OF PRINCIPAL OFFICIALS

June 30, 2003

CITY COUNCIL

Carl B. Hutcherson, Jr., Mayor

Bert Dodson, Jr., Vice Mayor
Robert E. Garber
Julian R. Adams

Edward M. Barksdale, Sr.
Joseph M. Seiffert
Joan Foster

SCHOOL BOARD

Lyle E. Schweitzer, Chairman

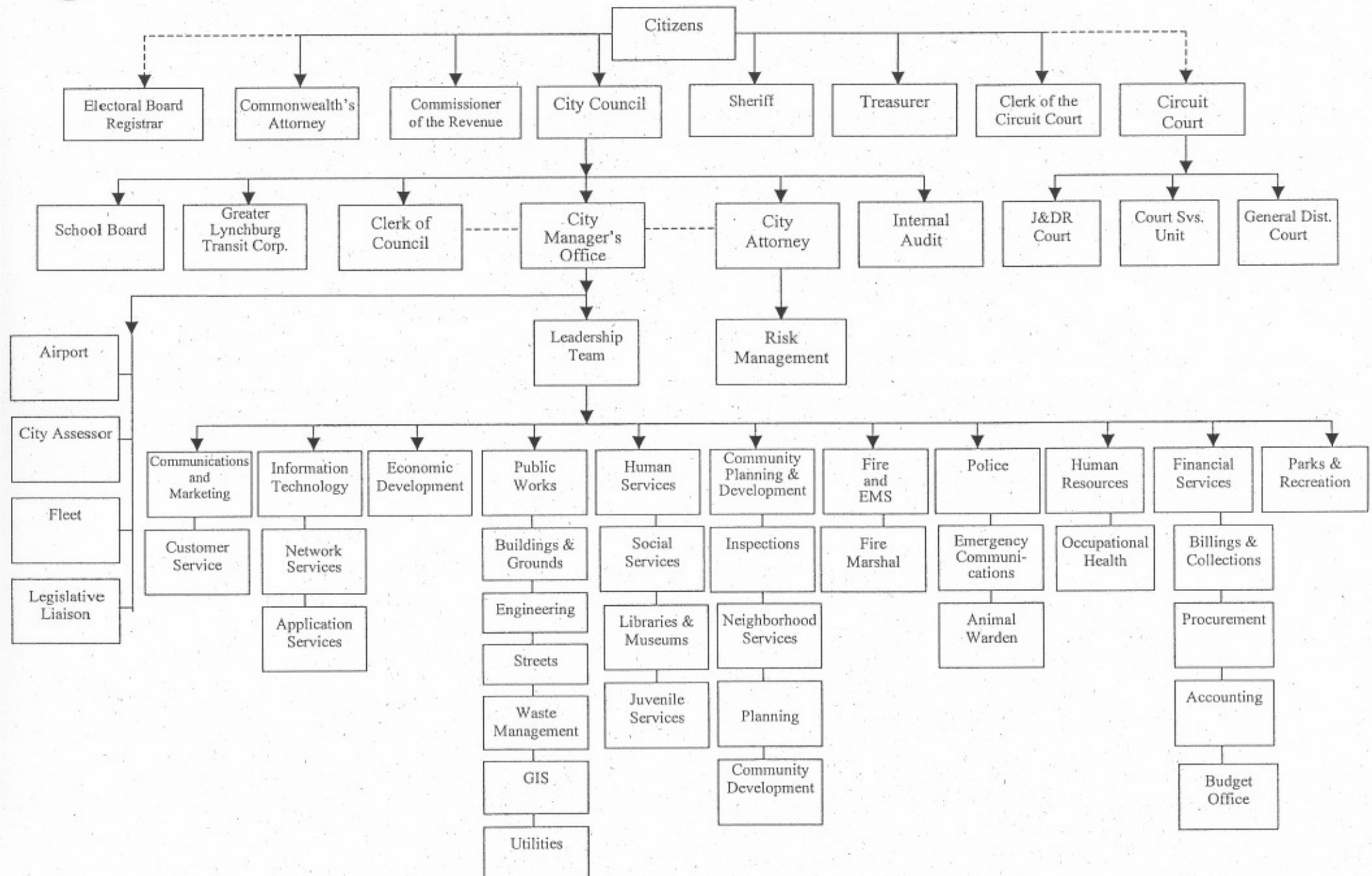
James T. Ballengee
Dr. Wayne A. Brindle
Julie P. Doyle
Ellis M. Frankfort

Charles C. Hooks, Jr.
Harry Smith, Jr.
Jean Smith-Turner
Sterling A. Wilder

OFFICIALS

L. Kimball Payne, III
Bonnie Svrcek
Walter C. Erwin
Michael Hill
David C. Thurman
Mitchell W. Nuckles
Dr. James T. McCormick

City Manager
Deputy City Manager
City Attorney
Director of Finance
Treasurer
Commissioner of the Revenue
Superintendent of Schools



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Lynchburg,
Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

FINANCIAL SECTION



Independent Auditors' Report

To the Members of the City Council and City Manager
City of Lynchburg, Virginia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lynchburg, Virginia, as of and for the year ended June 30, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Lynchburg's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Specifications for Audit of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lynchburg, Virginia as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and the Schedule of Funding Progress for a Defined Benefit Pension Plan are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2003 on our consideration of the City of Lynchburg, Virginia's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the City of Lynchburg's basic financial statements. The combining and individual nonmajor fund statements and schedules, as well as the accompanying schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory and statistical section of this report have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on them.

Cherry, Bekaert & Holland, L.L.P.

Lynchburg, Virginia
October 17, 2003

CITY OF LYNCHBURG, VIRGINIA

Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) of the City of Lynchburg's (City) financial statements offers the readers a narrative overview and analysis of the City's financial activities for the fiscal year ended June 30, 2003. The Lynchburg City Schools (Schools) component unit is included in this narrative also. The information presented here should be considered in conjunction with additional information provided in the Letter of Transmittal.

FINANCIAL HIGHLIGHTS

- The total assets of the City exceeded its total liabilities at June 30, 2003 by \$289.6 million (net assets). Unrestricted net assets of \$45.8 million were available to meet the City's future obligations. This represented \$30.3 million for governmental activities which included the General Fund, and \$15.5 million for business-type activities which included the City's Enterprise Funds (Water, Sewer, Airport, and Solid Waste Management).
- The General Fund's undesignated fund balance of \$17.1 million was 14.5% of total General Fund revenues of \$117.9 million as compared to the Council adopted undesignated fund balance policy target of 10%.
- As a result of reclassifying capital assets activity from the Schools component unit to the governmental unit for FY 2003, both the City's and Schools' FY 2002 net assets have been restated. Please refer to Note 20 in the Comprehensive Annual Financial Report for more detailed information regarding this restatement. In comparison with the prior fiscal year, the City's total net assets increased 3% or \$7.2 million to \$289.6 million from \$282.4 million, as restated from \$275.4 million in FY 2002. Net assets of governmental activities increased \$0.4 million to \$161.3 million from \$160.9 million, as restated from \$153.9 million in FY 2002; and, net assets of business-type activities increased 6% or \$6.8 million to \$128.3 million from \$121.5 million in FY 2002. The Schools' total net assets decreased 3% or \$0.2 million to \$6.6 million from \$6.8 million, as restated from \$12.9 million in FY 2002.
- The City's total revenues of \$168.7 million decreased 2% or \$3 million, and the City's total expenses of \$161.5 million decreased 2% or \$3.3 million from FY 2002. The City's general revenues and transfers of \$95 million were \$7.1 million more than the expenses net of program revenues of \$87.9 million.
- The City's total debt increased by 2% or \$3.5 million to \$224.7 million for FY 2003 from \$221.2 million for FY 2002. New debt of \$46.9 million was issued, while \$45.1 million was retired. New debt included a \$23.7 million general obligation refunding bond issue, a \$6.5 million Virginia Public School Authority bond, and \$16.7 million in new debt. Retired debt included the \$23.4 million of refunded debt, a \$7.5 million bond anticipation note, and \$14.2 million of planned principal retirements. The refunding bond issue was estimated to reduce debt service by \$1.7 million over eleven years resulting in an economic gain of \$1.5 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Comprehensive Annual Financial Report (CAFR) consists of four sections: *introductory, financial, statistical and compliance*. The financial section consists of the *independent auditor's report, management's discussion and analysis, basic financial statements and required supplementary information*. The Management's Discussion and Analysis serves as an introduction to the City's basic financial statements which are the *government-wide financial statements, fund financial statements, and notes to the financial statements*. In addition to the required elements, an *other supplementary information* section is included which presents combining statements for non-major governmental funds, internal service funds, agency funds, discretely presented component units, budget and actual schedules for non-major governmental funds, and debt obligation schedules.

The City's basic financial statements present two kinds of statements, each with a different snapshot of the City's finances. Both the government-wide and fund perspectives allow the reader to address relevant questions, broaden the basis of comparison and enhance the City's accountability.

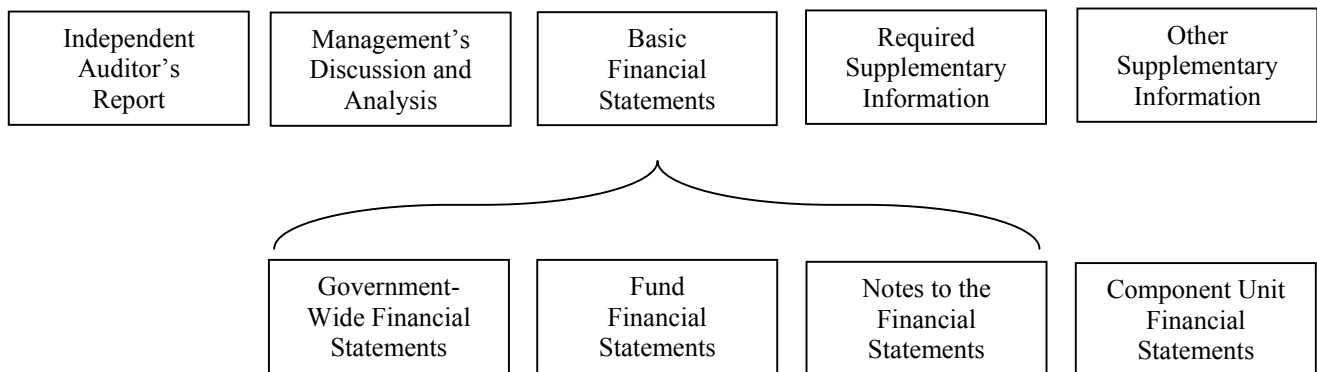
- The first two statements are *government-wide financial statements* that provide both *short-term* and *long-term* information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the City government, reporting the City's operations in more detail than the government-wide statements.
 - *Governmental fund statements* tell how *general government services* like public safety are financed in the *short-term* as well as what remains available for future spending.

- *Proprietary fund statements* offer short- and long-term financial information about the activities the government operates *like businesses*, such as the public utilities systems (water and sewer).
- *Fiduciary fund statements* provide information about the financial relationships in which the City acts solely as a *trustee or agent* for the benefit of others to whom the resources belong.

The financial statements also include *notes* that detail data supporting the information in the financial statements. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A summarizes the required elements of the financial section and its organization in the CAFR.

Figure A

Required Components of Lynchburg's Financial Section



GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are similar to those used by private-sector companies and report information about the City as a whole. One of the most important questions asked about the City's finances is, "Is the City as a whole better or worse as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which are the government-wide statements, report information about the City's finances and its activities to answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These statements combine and consolidate short-term, available resources with capital assets and long-term obligations.

The Statement of Net Assets and the Statement of Activities report the City's net assets and changes in net assets. One can think of the City's net assets – the difference between assets and liabilities – as a way to measure the City's financial health, or financial position. Over time, increases or decreases in net assets help determine whether the City's financial position is improving or deteriorating.

In the Statement of Net Assets and the Statement of Activities, the City is divided into the following:

Governmental activities - Most of the City's basic services are reported here: general government, police, fire, public works, health and human services, parks and recreation, community development and fleet internal services. Primarily, property taxes, other taxes, and intergovernmental revenue finance most of these activities.

Business-type activities - The financial information for the water, sewer, airport and solid waste activities are reported here. The City charges a fee to customers to fund all or most of the cost of services provided by these activities.

Component units - The City also includes three separate legal entities in its Report – the Lynchburg City Schools, the Greater Lynchburg Transit Company, and the Business Development Centre, Inc. While these represent legally separate entities, their operational or financial relationship with the City makes the City financially accountable.

The basic Government-Wide financial statements are on pages 4-5 of this report.

FUND FINANCIAL STATEMENTS

Traditional readers of governmental financial statements will find familiarity with the fund financial statement presentation. The focus is on the City's most significant funds. A fund is a grouping of related accounts used to maintain control over resources segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate fiscal accountability. As described in the following information, the City uses governmental, proprietary, and fiduciary fund financial statements to provide detailed information regarding the City's most significant funds.

Governmental Funds

Governmental funds report most of the City's basic services. The funds focus on cash and other financial resources that can be readily converted to cash flows in and out, and balances left at year-end that are available for future spending. Consequently, the governmental funds statements provide a near or short-term view of the City's finances that helps the reader determine whether there are greater or fewer financial resources available in the near future to finance City programs. Because this information does not encompass the long-term focus of the government-wide statements, additional information is provided at the bottom of the governmental funds statements that explain the relationship (or differences) between them. The basic Governmental Funds financial statements are on pages 6-10 of this report.

Proprietary Funds

Proprietary funds report the same functions that are presented as business-type activities in the government-wide financial statements. Proprietary funds are classified as enterprise or internal service funds. An enterprise fund reports any activity for which fees are charged to external users for goods or services. Internal service funds account for goods and services provided on a cost reimbursement basis from activities within the government. The City maintains four enterprise funds to account for the airport, water, sewer, and solid waste operations; and, an internal service fund to account for its fleet services. Because fleet services predominantly benefit governmental rather than business-type functions, the internal service fund is included within governmental activities in the government-wide financial statements. The basic Proprietary Funds financial statements are on pages 11-14 of this report.

Fiduciary Funds

Fiduciary funds account for assets held by the City in a trustee capacity or as an agent for others. Activities from fiduciary funds are not included in the government-wide financial statements because the City cannot use these assets for its operations. The basic Fiduciary Fund financial statement is on page 15 of this report.

Notes to the financial statements

The Notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements, Transmittal Letter and the MD&A. The Notes to the financial statements are on pages 16-48 of this report.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information is included on page 49 of this report.

The Combining and Individual Fund Statements and Schedules for all Non-major Funds which are governmental, special revenue, and capital projects funds are included on pages 50-59 of this report.

The Schools' and the City's financial statements are included in one Comprehensive Annual Financial Report. The Schools' fund financial statements are included on pages 60-64 of this report.

The Greater Lynchburg Transit Company and the Business Development Centre, Inc. issue separate reports and the component unit financial statements are included on pages 65-68 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets

The following table reflects condensed information on the City's net assets. The net assets for the governmental activities, total primary government and the Schools' component unit have been restated for FY 2002 due to the change in reporting the Schools' capital asset activity from the component unit in FY 2002 to the governmental activity for FY 2003. Percentage changes in the table below are rounded for the following narrative.

Summary of Statement of Net Assets As of June 30, 2003/2002 (in millions)

	Governmental Activities		Business-Type Activities		Total Primary Government		Percent Change	Component Unit Schools		Component Unit Transit	
	2003	2002	2003	2002	2003	2002		2003	2002	2003	2002
	Restated				Restated			Restated			
Current and other assets	\$ 48.7	\$ 40.7	\$ 30.3	\$ 29.2	\$ 79.0	\$ 69.9	13.02%	\$ 12.6	\$ 11.9	\$ 1.6	\$ 0.4
Capital Assets	214.9	215.7	220.4	218.0	435.3	433.7	0.37%	5.2	5.8	5.0	5.9
Total Assets	263.6	256.4	250.7	247.2	514.3	503.6	2.12%	17.8	17.7	6.6	6.3
Long-term liabilities	92.5	88.4	119.3	123.0	211.8	211.4	0.19%	2.6	2.6	0.3	-
Other liabilities	9.8	7.1	3.1	2.7	12.9	9.8	31.63%	8.6	8.3	1.0	0.3
Total liabilities	102.3	95.5	122.4	125.7	224.7	221.2	1.58%	11.2	10.9	1.3	0.3
Net Assets											
Invested in capital assets, net of related debt	130.9	131.9	105.6	106.0	236.5	237.9	-0.59%	5.2	3.1	5.0	5.9
Restricted	0.1	7.1	7.2	1.1	7.3	8.2	-10.98%	0.1	-	-	-
Unrestricted	30.3	21.9	15.5	14.4	45.8	36.3	26.17%	1.3	3.7	0.3	0.1
Total net assets	\$ 161.3	\$ 160.9	\$ 128.3	\$ 121.5	\$ 289.6	\$ 282.4	2.55%	\$ 6.6	\$ 6.8	\$ 5.3	\$ 6.0

The City's total net assets for the total primary government increased by 3% or \$7.2 million from \$282.4 million as restated at June 30, 2002 to \$289.6 million at June 30, 2003 as outlined in the following information.

Current and other assets increased by 13%, or \$9.1 million for several reasons as outlined: amounts due from a limited partnership financing arrangement for high school building renovations; amounts due from a private developer for the downtown redevelopment project (BluffWalk Center) partially financed by a federal Section 108 Loan Program; reclassification of the Schools' current assets related to capital activity; and, bond proceeds' investments. Please refer to Note 20 for the Schools' reclassification information.

Capital assets, net of depreciation, increased overall by 0.4% or \$1.6 million primarily due to building renovations, downtown redevelopment, economic development, Combined Sewer Overflow (CSO) and street infrastructure projects. Additionally, Schools' capital assets, net of depreciation, are reported as a governmental activity in FY 2003. Please refer to Note 8 and Note 20 for capital assets detail reporting.

Long-term liabilities increased overall by 0.2% or \$0.4 million consisting of a \$4.1 million increase for governmental activities as debt issuances exceeded debt retirement and defeasance from a refunded debt issue; and, a \$3.7 million decrease for business-type activities as debt retirement and defeasance exceeded debt issuances. Please refer to Note 9 of this report and the MD&A's long-term debt section.

Other liabilities increased by 32% or \$3.1 million due to construction in progress payables, salaries and benefits payables, and a federal loan payable for the BluffWalk Center downtown redevelopment project.

Net assets invested in capital, net of related debt, of \$236.5 million were 82% of total net assets of \$289.6 million. This represented a decrease of 1% or \$1.4 million from FY 2002. Net assets invested in capital were not available for future expenses because they were facilities, equipment and infrastructure, etc. utilized to provide services.

Restricted net assets decreased 11% or \$0.9 million due to: federal/state grant receivables classified at FY 2002 as restricted and classified as unrestricted for FY 2003; restatement of Schools' bond proceeds investments for capital activity; and, federal/state funds for CSO and receivables from surrounding counties, participating in the wastewater treatment plant debt service for capital improvements, classified as invested in capital assets, net of debt, in FY 2002 and classified as restricted for FY 2003.

The City has a strong financial position with 16% or \$45.8 million of unrestricted net assets, which are comprised of 66% or \$30.3 million for governmental activities, and 34% or \$15.5 million for business-type activities. These unrestricted net assets increased 26% or \$9.5 million from \$36.3 million at FY 2002 as restated, and were available for providing services to the citizens of the City. Governmental activities unrestricted net assets as restated increased by 39% or \$8.4 million from \$21.9 million in FY 2002, and business-type activities increased 8% or \$1.1 million from \$14.4 million in FY 2002. This increase was due to: FY 2003 results of operations; the limited partnership financing arrangement for the Schools' building renovation; amounts due from a private developer for the BluffWalk Center project; and, amounts due from federal and state agencies for grant programs reported as unrestricted net assets for FY 2003 and restricted net assets for FY 2002.

The Schools' component unit total net assets of \$6.8 million, as restated, decreased by 3% or \$0.2 million primarily due to the change in reporting the Schools' capital asset activity. This information was reported with the component unit in FY 2002, and is reported with the governmental activity in FY 2003. The restatement of FY 2002 balances included decreases of: \$3.6 million in current assets; \$3.6 million in capital assets; \$1.1 million in other liabilities; \$3.6 million in net assets invested in capital, net of related debt; \$1.9 million in restricted net assets; and, \$0.6 million in unrestricted net assets. The overall restatement resulted in a decrease of \$6.2 million in the Schools' total net assets and an overall increase of the same amount for governmental activities. This reporting change complies with financial reporting standards as the City owns these capital assets and finances the related debt. Please refer to Note 20 for the Schools' information to restate beginning net assets.

The Greater Lynchburg Transit Company's component unit total net assets decreased by 12% or \$0.7 million due to results of operations and capital activity.

Statement of Activities

The City's total revenues and expenses for governmental and business-type activities are reflected in the following chart. The beginning net assets for FY 2003 are restated due to the change in reporting of Schools' capital assets activity.

Summary of Changes in Net Assets For Fiscal Years Ended June 30, 2003/2002 (in millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Percentage Change	Component Unit Schools		Component Unit Transit	
	2003	2002	2003	2002	2003	2002		2003	2002	2003	2002
Revenues:											
Program Revenues:											
Charges for services	\$ 7.4	\$ 9.8	\$ 29.6	\$ 27.0	\$ 37.0	\$ 36.8	0.54%	\$ 1.5	\$ 1.7	\$ 1.0	\$ 0.9
Operating grants/contributor	28.3	26.7	0.4	0.5	28.7	27.2	5.51%	43.5	41.6	1.9	1.6
Capital grants/contributions	3.4	3.0	4.0	7.6	7.4	10.6	-30.19%	-	0.2	0.1	3.6
General Revenues:											
Property Taxes	43.8	44.7	-	-	43.8	44.7	-2.01%	-	-	-	-
Other Taxes	37.6	37.4	-	-	37.6	37.4	0.53%	-	-	-	-
Unrestricted Intergovernme	8.9	8.6	-	-	8.9	8.6	3.49%	-	-	-	-
Interest	0.6	1.0	1.0	0.9	1.6	1.9	-15.79%	-	-	-	-
Miscellaneous	3.1	3.1	-	0.1	3.1	3.2	-2.21%	0.4	0.4	0.1	-
Transfers	0.6	1.3	-	-	0.6	1.3	-53.85%	-	-	-	-
City appropriation	-	-	-	-	-	-	-	27.0	39.1	0.5	0.6
Total Revenues	\$133.7	\$135.6	\$ 35.0	\$ 36.1	\$168.7	\$171.7	-1.73%	\$ 72.4	\$ 83.0	\$ 3.6	\$ 6.7
Expenses:											
General Government	15.1	13.4	-	-	15.1	13.4	12.69%	-	-	-	-
Education	28.4	39.8	-	-	28.4	39.8	-28.64%	72.6	75.4	-	-
Judicial	3.8	3.5	-	-	3.8	3.5	8.57%	-	-	-	-
Health and Human Services	19.7	19.1	-	-	19.7	19.1	3.14%	-	-	-	-
Public Safety	28.9	28.9	-	-	28.9	28.9	0.00%	-	-	-	-
Public Works	20.8	17.9	-	-	20.8	17.9	16.20%	-	-	-	-
Community Development	5.3	6.4	-	-	5.3	6.4	-17.19%	-	-	-	-
Cultural and Recreational	4.3	2.1	-	-	4.3	2.1	104.76%	-	-	-	-
Non-departmental	2.8	3.3	-	-	2.8	3.3	-15.15%	-	-	-	-
Interest/fees long-term debt	4.2	2.3	-	-	4.2	2.3	82.61%	-	-	-	-
Transfers	-	-	0.6	1.3	0.6	1.3	-53.85%	-	-	-	-
Transit	-	-	-	-	-	-	-	-	-	4.3	3.9
Water	-	-	7.9	8.1	7.9	8.1	-2.47%	-	-	-	-
Sewer	-	-	11.1	10.7	11.1	10.7	3.74%	-	-	-	-
Airport	-	-	3.1	3.2	3.1	3.2	-3.13%	-	-	-	-
Solid Waste Management	-	-	5.5	4.8	5.5	4.8	14.58%	-	-	-	-
Total Expenses	\$133.3	\$136.7	\$ 28.2	\$ 28.1	\$161.5	\$164.8	-2.00%	\$ 72.6	\$ 75.4	\$ 4.3	\$ 3.9
Change in net assets	0.4	(1.0)	6.8	8.0	7.2	7.0	3.30%	(0.2)	7.6	(0.7)	2.8
Net Assets Beginning Restated	160.9	154.9	121.5	113.5	282.4	268.4	5.22%	6.8	5.3	6.0	3.2
Net Assets End of Year	\$161.3	\$153.9	\$128.3	\$121.5	\$289.6	\$275.4	5.17%	\$ 6.6	\$ 12.9	\$ 5.3	\$ 6.0

Governmental Activities

The City's governmental activities are comprised of the General Fund, Fleet Internal Services Fund, and Special Revenue Funds primarily for general government Grant Funds, City Capital and Schools' Capital Projects Funds. Total net assets increased by 0.2% or \$0.4 million from \$160.9 million as restated at June 30, 2002 to \$161.3 million at June 30, 2003.

Current and other assets increased 20% or \$8 million due to a \$3.5 million receivable due from a limited partnership for the E. C. Glass High School renovation, and \$4.8 million in bond proceeds investments. Of the \$25.3 million in cash and investments, 11% or \$2.7 million was dedicated to capital activity, and not restricted for financial reporting purposes.

Capital assets, net of depreciation, decreased slightly by 0.4% or \$0.8 million while over \$20 million in school facilities and street infrastructure projects were placed in service.

Long-term liabilities increased overall by 5% or \$4.1 million. Total new debt of \$27.3 million included \$8.5 million of a refunding debt issue, \$11.7 million in a new debt issue, and a \$6.5 million Virginia Public Schools Authority bond. Of the \$22.5 million in total retirements, \$8.5 million was refunded governmental debt, \$7.5 million related to a bond anticipation note, and \$6.4 million in planned retirements. The remaining changes in long-term liabilities related to workers' compensation, compensated absences and capitalized lease obligations. Please refer to Note 9 and the MD&A's long-term debt section.

Net assets invested in capital, net of related debt, decreased 1% or \$1 million as described above for capital assets. For total net assets of \$161.3 million, 81% or \$130.9 million was invested in capital assets, net of related debt, and not available for future expenses because they were facilities, equipment, and infrastructure, etc., utilized to provide services. Please refer to Notes 8, 20, and the MD&A's capital assets section.

Restricted net assets decreased 99% or \$7 million as restated from \$7.1 million for FY 2002 to \$0.1 million for FY 2003. This was primarily due to \$5.2 million due from federal and state agencies for grant programs classified as restricted net assets in FY 2002 and classified as unrestricted net assets in FY 2003; and, \$1.9 million of Schools' bond proceeds investments being restated to governmental activities for FY 2003.

Unrestricted net assets were 19% or \$30.3 million of total net assets and available to provide services to citizens. The 39% or \$8.4 million increase was comprised of results of current year revenue and expense activity, \$3.5 million due from a limited partnership for the E. C. Glass High School renovation, and \$5.2 million in amounts due from federal and state agencies for grant programs. These grant amounts were reported as restricted net assets in FY 2002 and unrestricted net assets for FY 2003. In addition, debt service costs were less than anticipated due to the timing of the annual bond sale, which resulted in no debt payments for the new FY 2003 issue, combined with savings from the refunding bond issue.

Revenues

Revenues from governmental activities decreased 2% or a \$1.9 million from \$135.6 million at June 30, 2002 to \$133.7 million at June 30, 2003.

General revenues, specifically Property Taxes of \$43.8 million, 32% of total revenues, and Other Local Taxes of \$37.6 million, 28% of total revenues, were the largest components of this revenue category equaling \$81.4 million, or 60% of total revenues. Real estate taxes revenue, the City's largest single source of revenue, was \$30.8 million which was a 3.4%, or \$1 million increase from last year. The City's assessed real property tax base for FY 2003 increased 2.69% and the real property tax rate has been \$1.11 per \$100 of assessed real property value for the last six years.

The City received \$13 million from personal property taxes, which was 10% of total revenues and comprised of taxes on individual automobiles, business personal property, and machinery and tools, and was the second largest revenue source. The City received reimbursement from the Commonwealth of Virginia of \$5.3 million for taxes on individual automobiles. Under the provisions of the Personal Property Tax Relief Act of 1998 (PPTRA), the state's share was based on 70% percent of the individual taxpayers automobile levy. When the state reimbursement was added back to the local personal property taxes, there was a total of \$18.3 million, reflecting a 25%, or \$3.6 million increase from last year's revenue of \$14.7 million.

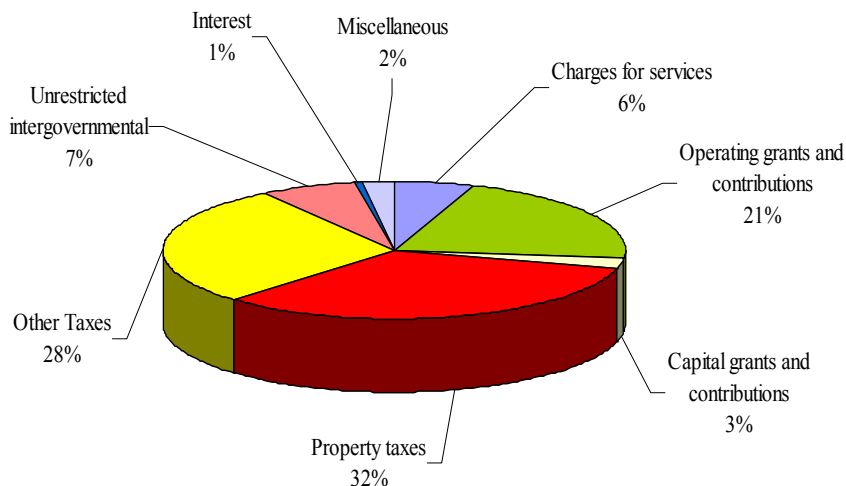
Other Taxes of \$37.6 million, 28% of total revenues was comprised of revenue from Local Sales, Consumer Utilities, Business Licenses, and Meals Taxes. Local Sales Tax revenues were \$11 million for FY 2003 which declined 8% or \$0.9 million from FY 2002. Consumer Utility Tax revenues increased 12% or \$0.7 million due to the cold winter weather. In spite of the economic downturn, Meals Taxes and Business Licenses Taxes increased slightly. The combination of these revenue sources resulted in a slight increase of \$0.2 million in Other Taxes revenue from FY 2002.

Operating grants and contributions of \$28.3 million, 21% of total revenues, were comprised of revenues from the Commonwealth of Virginia and the federal government primarily for health and human services, public works, and community development functions. The \$1.6 million or 6% increase from last year's revenue of \$26.7 million was due to: the BluffWalk Center project of \$1.1 million; City's and Schools' contributions of \$0.7 million to the Comprehensive Services Act Program previously reported as transfers; and, recovery of certain Foster Care and Adoption Programs' eligible expenses from the federal Revenue Maximization Program of \$0.7 million. Reductions in federal and state block grants of \$0.5 million for the Juvenile Detention and Domestic Violence Programs offset the increased revenues as noted, resulting in an overall \$1.6 million increase.

Unrestricted intergovernmental revenue from the Commonwealth of Virginia of \$8.9 million, 7% of total revenues, was comprised of \$5.3 million for the City's PPTRA reimbursement and \$2.4 million in public safety House Bill 599 funds.

Charges for services revenues of \$7.4 million, 6% of total revenues, decreased 25% or \$2.4 million from \$9.8 million in FY 2002. This was due to the reclassification of \$1.2 million of E-911 tax revenue to Other Taxes in FY 2003 and overall declines in various fees including leased parking and ambulance services.

Revenue by Source-Governmental Activities



Expenses

For FY 2003, governmental activities' expenses totaled \$133.3 million, which included a 2% budgeted increases for employee compensation and payments for education to the Schools. This represented a 3% decrease or \$3.4 million as compared to FY 2002. Because of the GASB Statement #34 financial reporting requirements, depreciation expense replaced retirement of principal on long-term debt, and allocated to governmental activities.

The City's five largest funded programs were 21% or \$28.4 million local support for education, 22% or \$28.9 million for public safety, 16% or \$20.8 million for public works, 15% or \$19.7 million for health and human services, and 4% or \$5.3 million for community development. Education continued to be one of the City's highest priorities and commitments. Of the \$28.4 million for education, the City's operating contribution totaled \$27 million; and, the remaining \$1.4 million was depreciation related to the reclassification of the Schools' capital assets to the governmental activities in FY 2003 instead of with the component unit reported in FY 2002. In addition, the City contributed \$5.2 million to the Schools for capital projects expenses.

The following table indicates the total cost of services and net cost of services for governmental activities.

***Net Cost of Lynchburg's Governmental Activities
For Fiscal Years Ended FY 2003/2002
(in millions)***

Governmental Activity	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	<u>2003</u>	<u>2002</u>	<u>2003-2002</u>	<u>2003</u>	<u>2002</u>	<u>2003-2002</u>
General Government	\$ 15.1	\$ 13.4	12.69%	\$ 14.6	\$ 12.4	17.74%
Education	28.4	39.8	-28.64%	26.7	39.7	-32.75%
Judicial	3.8	3.5	8.57%	1.1	1.6	-31.25%
Health and Human Services	19.7	19.1	3.14%	6.7	8.1	-17.28%
Public Safety	28.9	28.9	0.00%	21.5	18.3	17.49%
Public Works	20.8	17.9	16.20%	11.9	7.9	50.63%
Community Development	5.3	6.4	-17.19%	1.3	2.2	-40.91%
Cultural and Recreational	4.3	2.1	104.76%	3.5	1.3	169.23%
Non-departmental	2.8	3.3	-15.15%	2.8	3.3	-15.15%
Debt service - other	4.2	2.3	82.61%	4.2	2.3	82.61%
Total Governmental Activities	<u>\$ 133.3</u>	<u>\$ 136.7</u>	<u>-2.49%</u>	<u>\$ 94.3</u>	<u>\$ 97.1</u>	<u>-2.88%</u>

The City's total and net cost of services for governmental activities decreased overall by 2.49% and 2.88% respectively from FY 2002 to FY 2003. The major changes in cost of services and net cost of services for governmental activities were as follows, and percentage changes from the table are rounded in the following narrative.

General Government

- Total cost increased by 13% or \$1.7 million due to: a \$0.5 million contribution to the Lynchburg Redevelopment and Housing Authority for its relocation; \$0.4 million increase in the Blue Ridge Regional Jail Authority payment; \$0.2 million increase in insurance premiums; and \$0.6 million increase in fleet services depreciation expense.
- Net cost increased 18% or \$2.2 million due to the increased costs noted above, and the elimination of internal General Fund charges for information technology and copier services of \$0.3 million because of realigned budgets for these activities within the General Fund.

Education

- Total cost decreased by 29% or \$11.4 million due to several reasons as noted. The City's General Fund operating contribution to the Schools of \$4.1 million was reclassified to the General Fund debt service category for principal and interest payments. This related to the reclassification of Schools' capital assets to governmental activities. Prior to FY 2003, the City's contribution included funding for the Schools' debt service and operations. The contributed revenue and the debt service expenses were reported with the Schools' component unit financial statements. Additionally, FY 2002 included \$7.6 million in amounts contributed to the Schools related to debt proceeds and \$0.3 million of local resources for capital activity in the Schools' Capital Projects Fund that was reported with the component unit. Beginning in FY 2003, all Schools' Capital Projects Fund activity was reported with the governmental activities. Depreciation decreased \$0.7 million.
- Net cost decreased by 33% or \$13 million as noted above for total cost.

Judicial

- Total cost increased by 9% or \$0.3 million due to employee compensation and related benefits.
- Net cost decreased by 31%, or \$0.5 million because \$1.1 million of state judicial services revenues for the Sheriff's function were classified as public safety revenues in FY 2002.

Health and Human Services

- Net cost decreased 17% or \$1.4 million due to \$0.7 million of Revenue Maximization Program receipts not expended in FY 2003, and \$0.7 million of the City's and Schools' payments to the Comprehensive Services Act Fund was reclassified from operating transfers in FY 2002 to operating grants and contributions in FY 2003.

Public Safety

- Net cost increased 17% or \$3.2 million primarily due to the following reasons: \$1.2 million of E-911 tax revenues were reclassified from Public Safety in FY 2002 to Taxes in FY 2003; and, \$1.1 million in the Sheriff's state revenues were reclassified from Public Safety in FY 2002 to Judicial in FY 2003. The remaining increase in net cost was related to reduced federal and state funding of \$0.6 million for the Juvenile Correction and Domestic Violence Block Grant Programs.

Public Works

- Total cost increased by 16% or \$2.9 million due to \$2.2 million in additional streets and building maintenance costs, \$0.3 million in snow removal costs, and \$0.4 million increased depreciation from capitalizing the Enterprise Drive project.
- Net cost increased by 50%, or \$4 million due to the aforementioned additional expenditures, as well as reduced capital grant revenues because the Enterprise Drive Extension project was completed.

Community Development

- Total cost decreased by 17% or \$1.1 million due to completion of the Kemper Street Station project, and \$0.9 million in lower payments to the Lynchburg Industrial Development Authority (LIDA) for economic development.
- Net cost decreased by 41% or \$0.9 million because of lower state grant revenues for Lead Hazard Control Program and the Kemper Street Station project.

Cultural and Recreation

- Total cost increased 105% or \$2.2 million due to the reclassification of Museums, and Parks and Recreation activities to this function from previous reporting in the Health and Human Services activity in FY 2002.
- Net cost increased by 169% or \$2.2 million as noted above for total cost.

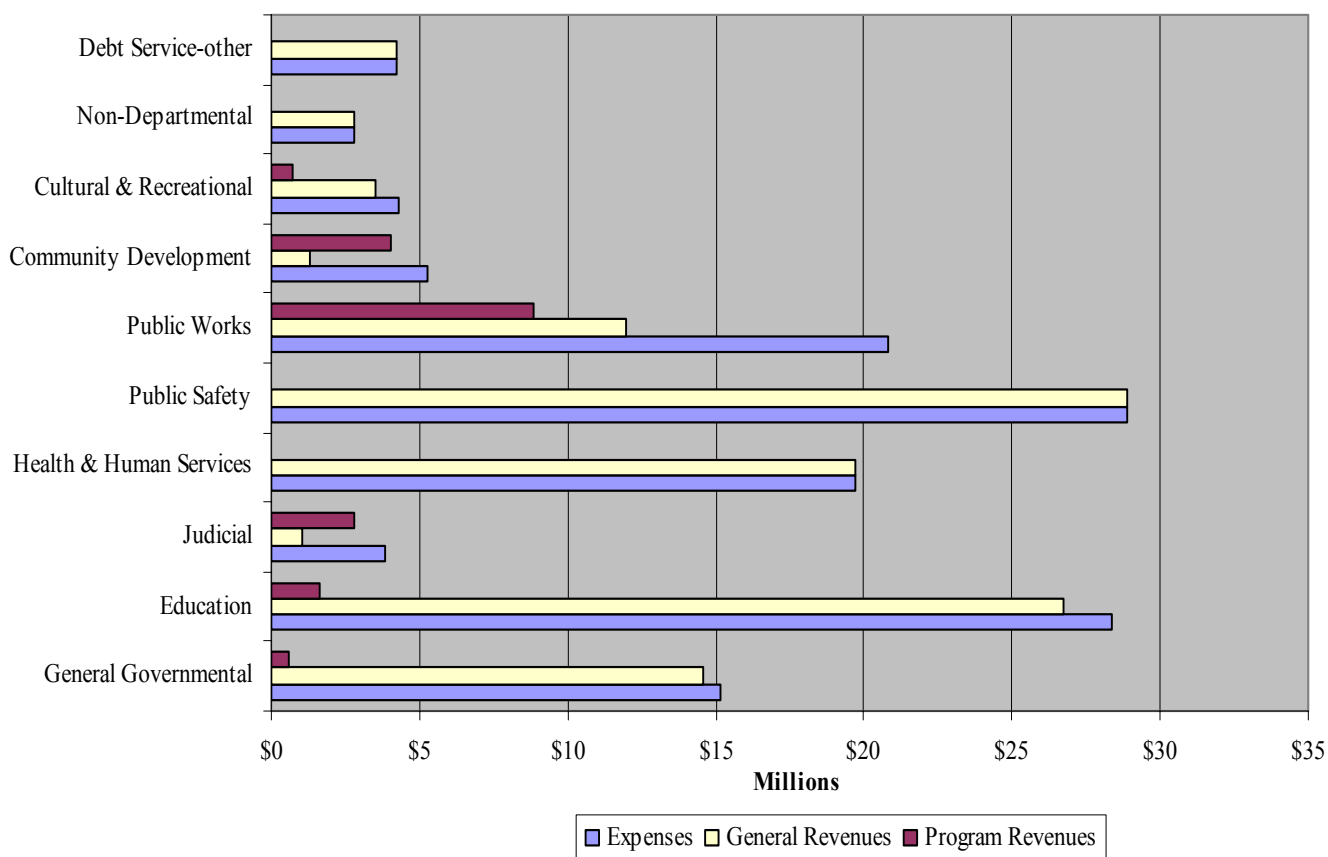
Debt Service Interest

- Total cost increased by 83% or \$1.9 million due to the reclassification of the Schools' debt service to governmental activities as described above for Education. The amount in this category was for the interest expense only.
- Net cost increased by the same amount as noted above for total cost.

The Statement of Activities on page 5 of the CAFR shows that the \$133.3 million in governmental activities expenses were financed by \$7.4 million (6%) from those receiving services, \$28.3 million (21%) from operating grants and contributions, \$3.4 million (2%) from capital grants and contributions, and \$94.2 million (71%) from the City's general revenues. Overall, general revenues and transfers of \$94.6 million were \$0.3 million more than the \$94.3 million of expenses net of program revenues.

The following graph compares the governmental activities' program expenses and program revenues, and indicates program funding from general revenues.

Program Expenses and Program Revenues - Governmental Activities



Business-type Activities

The City's business-type activities are comprised of Enterprise Funds for water, sewer, airport, and solid waste management operations. Total net assets increased by 6% or \$6.8 million from \$121.5 million at June 30, 2002 to \$128.3 million at June 30, 2003.

Current and other assets increased 4% or \$1.1 million due to increased investments and receivables of 13% or \$2.6 million for operating and capital activities. Of the \$17.9 million in cash and investments, \$2.3 million was dedicated to capital activity and not restricted for financial reporting purposes. A restricted investment for landfill closure was \$2.6 million.

Capital assets, net of depreciation, increased 1% or \$2.4 million which included the completion of \$17.8 million in CSO infrastructure projects, \$2.8 million in a wastewater treatment plant odor control project, and \$3 million for the new general aviation terminal at the airport.

Long-term liabilities decreased 3% or \$3.7 million. New debt of \$20.3 million included \$15.2 million of a refunding debt issue and \$5.1 million in new debt issue. Of the \$22.6 million in retirements, \$15 million was refunded debt and \$7.7 million was planned principal retirements. The remaining changes in long-term liabilities related to compensated absences and landfill closure obligations. Please refer to Note 9 and the long-term debt section of this MD&A.

Net assets invested in capital, net of related debt, decreased slightly by \$0.4 million. Please refer to Notes 8, 20, and the MD&A's capital assets section. For total net assets, 82% or \$105.6 million of \$128.3 million was invested in capital, net of related debt, and not available for future expenses because they were facilities, equipment, and infrastructure, etc. utilized to provide services.

Restricted net assets increased 555% or \$6.1 million due to CSO federal/state grant and loan program funds; and, future receipts from surrounding counties, which participate in the debt service costs associated with capital improvements to the wastewater treatment plant facility and other joint use facilities, reclassified from FY 2002 as invested in capital assets, net of related debt, to restricted net assets in FY 2003.

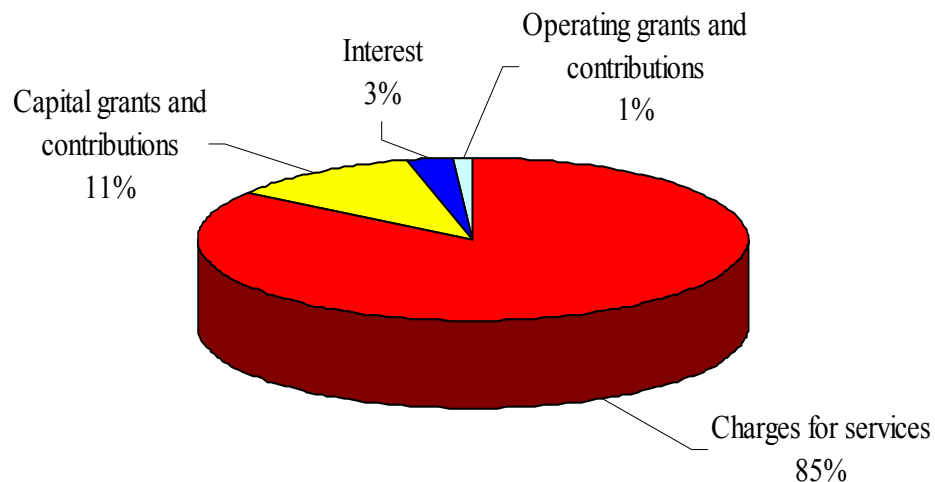
Unrestricted net assets were 12% or \$15.5 million of total net assets and available to provide services to citizens. The 8% or \$1.1 million increase was due to the results of operations and fee increases in water, sewer and solid waste activities.

In addition, debt service costs were lower than anticipated due to the timing of the annual bond sale, which resulted in no debt payments for the new FY 2003 issue, combined with savings from the refunding bond issue.

Revenues

Business-type activities' revenues declined 3% or \$1.1 million from \$36.1 million at June 30, 2002 to \$35 million at June 30, 2003. This was primarily due to reduced intergovernmental capital grant contributions of \$3.6 million for the CSO program. Increases in charges for services of 10% or \$2.6 million were due to rate increases in the water, sewer and solid waste activities. Of the \$35 million in total revenues, 85 % or \$29.6 million was from charges for services and 13 % or \$4.4 million was from operating/capital grants and contributions, the majority of which was for CSO correction activities.

Revenues by Source - Business-type Activities



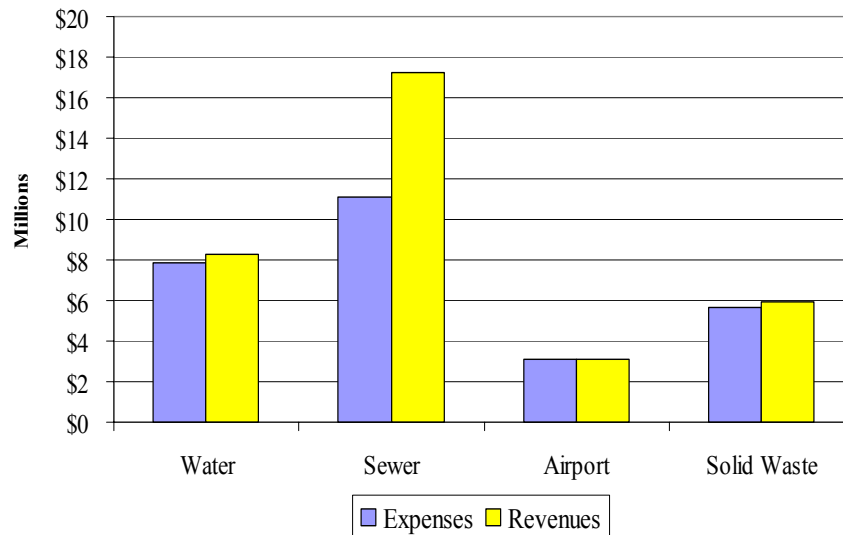
Expenses

Business-type activities' expenses increased 0.3% or \$0.1 million from \$28.1 million at June 30, 2002 to \$28.2 million at June 30, 2003. This was due primarily to increased water treatment expenses resulting from drought conditions early in FY 2003, increased solid waste costs for landfill closure and post closure expenses, and increased depreciation.

The City's Proprietary Funds provide the same type of information that is reported in the government-wide financial statements for business-type activities, but in more detail. Please refer to Financial Analysis of the Fund Financial Statements-Proprietary Funds section of the MD&A for a more detailed analysis of the major funds that make up business-type activities.

Overall, business-type activities' revenues were \$6.8 million more than expenses. The following graph compares the business-type activities' program expenses and program revenues.

Program Expenses and Program Revenues - Business-type Activities



Component Unit – Schools

The total net assets decreased \$0.2 million from \$6.8 million as restated at June 30, 2002 to \$6.6 million at June 30, 2003 primarily due to the reclassification of Schools' capital asset activity from the component unit for FY 2002 to the governmental activity for FY 2003. The Schools' current assets, capital assets, other liabilities, and net assets were restated because the City owns the assets and finances the related debt. The restatement of FY 2002 balances in detail included decreases of: \$3.6 million in current assets; \$3.6 million in capital assets; \$1.1 million in other liabilities; \$3.6 million in net assets invested in capital, net of related debt; \$1.9 million in restricted net assets; and, \$0.6 million in unrestricted net assets. For total net assets of \$6.6 million at FY 2003, 79% or \$5.2 million was invested in capital, net of related debt, and not available for future expenses because this was equipment utilized to provide services.

Revenues

Total revenues for the Schools decreased 13% or \$10.6 million from \$83 million as June 30, 2002 to \$72.4 million at June 30, 2003. The City's General Fund operating contribution to the Schools of \$4.1 million was reclassified to the General Fund debt service category for principal and interest payments. This was related to the reclassification of Schools' capital assets to governmental activities. Prior to FY 2003, the City's contribution included funding for the Schools' debt service and operations; and, the contributed revenue as well as the debt service expenses were reported with the component unit financial statements. Additionally, FY 2002 included \$7.6 million in amounts contributed to the Schools related to debt proceeds and \$0.3 million of local resources for capital activity as the Schools' Capital Projects Fund was reported with the component unit. Beginning in FY 2003, all Schools' Capital Projects Fund activity and debt service were reported with the governmental activities. For FY 2003, 49% or \$35.8 million of total revenues was received from the Commonwealth of Virginia and included \$7 million in sales tax receipts. The City government appropriated \$27 million to education or 38% of total revenues. Federal revenues of 11% or \$7.7 million included \$2 million from Title I funds to provide educational services to economically disadvantaged students, \$2 million to provide special education services for students with disabilities, and \$1 million for the operation of the federal School Food Program. Other revenue sources included \$1.9 million or 2% from school meals sales, tuitions paid by participating school divisions to the Central Virginia Governor's School for Science and Technology, and other miscellaneous sources.

Expenses

Total expenses for the Schools decreased 4% or \$2.8 million from \$75.4 million at June 30, 2002 to \$72.6 million at June 30, 2003. For FY 2003, 76% or \$55.2 million of total expenses directly related to providing instruction to the 8,955 students in the Lynchburg City Schools; and, 13% or \$9.7 million supported maintenance and operations of school division facilities including

the operations of the School Food Program, which provided breakfast and lunch to students. Transportation costs for students were 4% or \$3 million of total expenses, and 2% or \$1.8 million provided administration for the schools, attendance and health services for students. Capital outlays of 5% or \$3.2 million of total expenses included the acquisition of equipment.

Proceeds of \$1 million from capital leases were used to purchase technology, hardware, infrastructure, and other instructional items that are capital in nature. Purchases from capital lease proceeds of \$0.9 million were included in capital outlay expenditures on page 62 of this report.

Component Unit – Greater Lynchburg Transit Company

The total net assets of the Greater Lynchburg Transit Company decreased 12% or \$0.7 million from \$6 million at June 30, 2002 to \$5.3 million at June 30, 2003. This decrease related to slight increases in revenues, reduced capital contributions, and increased operating costs including depreciation expense increases from previous capital asset investments.

FUND FINANCIAL ANALYSIS

Governmental Funds

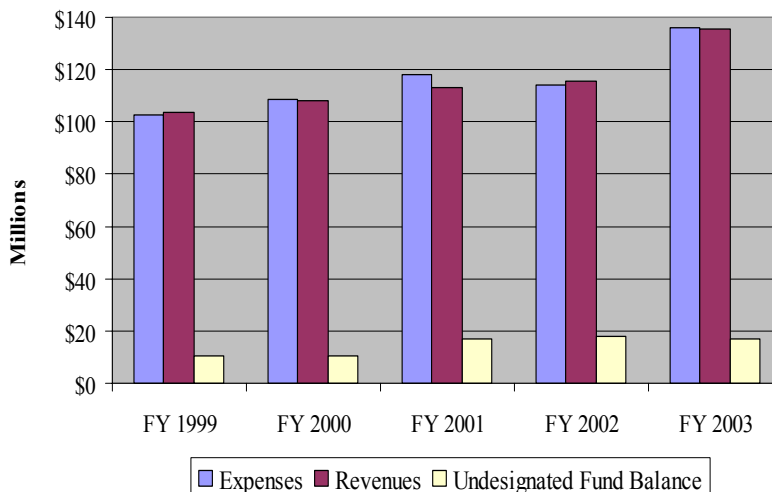
Governmental Funds include the General Fund and Other Governmental Funds, which are comprised of the Special Revenue Funds and Capital Projects Fund. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of available resources. Such information is useful in assessing the City's financing requirements. In particular, the unreserved fund balance may serve as a useful measure of a government's net resources available for future spending.

- At the end of FY 2003, the City's governmental funds reported combined fund balances of \$30.6 million.
- Of the combined fund balances, \$18.8 million constituted undesignated fund balances available for future expenses of \$17.1 million for the General Fund and \$1.7 million for Special Revenue Funds.
- The \$1.7 million undesignated fund balances for Other Governmental Funds was comprised of the Special Revenue Funds primarily related to the E-911 and Technology Funds. The details of all funds are on pages 54-55 of this report.
- Of the combined fund balances, \$8.3 million was designated, indicating commitment to specific uses comprised primarily of \$3.2 million for capital activity and \$2.3 million for the self-insurance program. \$3.5 million was reserved for outstanding encumbrances at the end of FY 2003. Please refer to Note 11 for details of all designations.

General Fund

The General Fund is the chief operating fund of the City. At the end of FY 2003, the undesignated fund balance was \$17.1 million. The undesignated fund balance represented 14.5% of total General Fund revenues, which compared favorably to City Council's adopted undesignated fund balance policy target of 10%. The following graph and table present General Fund summary financial information for the past five years, and General Fund summary budget and actual information.

Five-Year General Fund Financial Summary



General Fund Budgetary Highlights
For Fiscal Year Ended FY 2003
(in millions)

<u>Description</u>	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	Variance Amended vs. <u>Actual</u>
<u>Revenues & Other Financing Sources</u>				
Taxes	\$ 86.0	\$ 80.7	\$ 80.7	\$ -
Intergovernmental	21.9	28.2	28.4	0.2
Other	<u>11.2</u>	<u>26.6</u>	<u>26.3</u>	<u>(0.3)</u>
Total	<u>119.1</u>	<u>135.5</u>	<u>135.4</u>	<u>(0.1)</u>
<u>Expenditures & Other Financing Uses</u>				
Expenditures	113.9	132.6	129.1	3.5
Transfers	<u>5.6</u>	<u>7.1</u>	<u>7.0</u>	<u>0.1</u>
Total	<u>119.5</u>	<u>139.7</u>	<u>136.1</u>	<u>3.6</u>
<u>Change in Fund Balance</u>	<u>\$ (0.4)</u>	<u>\$ (4.2)</u>	<u>\$ (0.7)</u>	<u>\$ 3.5</u>

Actual expenditures and other financing uses of \$136.1 million exceeded revenues and other financing sources of \$135.4 million by \$0.7 million in the General Fund.

Actual revenues were on target and were within \$0.1 million of the amended budget. The City received \$5.3 million from the Commonwealth of Virginia Personal Property Tax Relief Assistance Program for reimbursement of approximately 70% of automobile personal property taxes paid by individuals. In the FY 2003 budget, the estimated amount to be received from the state for this revenue was categorized as taxes rather than as intergovernmental revenue. Therefore, as noted by the above budget summary, actual revenues from taxes were \$5.3 million less than the adopted budget; and, actual revenues from intergovernmental sources were \$6.5 million more than the adopted budget. The \$0.1 million revenue shortfall from the amended budget is attributable primarily to less revenue than anticipated in personal property taxes.

Actual expenditures and transfers were \$3.6 million less than the FY 2003 amended budget and were attributable to unexpended appropriations for:

- \$0.14 million for debt service
- \$1.4 related to health and human services
- \$0.4 million for public works
- \$1.7 million for personal services

Each year City Council appropriates funds for a contingency reserve, and for the FY 2003 budget, \$1.2 million was appropriated. City Council appropriated 50% from the contingency reserve primarily for public safety, health and human services, transportation, and technology needs. The remaining 50% returned to fund balance as unexpended funds.

From the original FY 2003 budget of \$119.5 million, City Council approved budget amendments of 17% or \$20.2 million for the following purposes, which resulted in an amended budget of \$139.7 million:

- Appropriated \$1.5 million for the carry forward of unexpended FY 2002 appropriations into FY 2003
- Appropriated \$7.5 million for the retirement of the FY 2002 bond anticipation note for Schools
- Appropriated \$8.8 million for the General Fund's portion of the \$23.4 million of refunded bonds

- During each fiscal year, management reviews current year expenditures and revenue collection patterns and presents to City Council a third quarter budget amendment. For FY 2003, \$2.4 million was appropriated for third quarter adjustments and was comprised of the following:
 - \$1.3 million for increased funding for the baseball stadium renovation capital project
 - \$0.25 million for additional costs associated with snow removal during the winter of 2003
 - \$0.8 million for health and human service programs and grants
 - \$0.05 million for information technology, safe neighborhoods' activities, and victim witness grants

Proprietary Funds

The City's proprietary funds are comprised of water, sewer, airport, solid waste management, and fleet services. The City accounts for the water, sewer, airport, and solid waste management as enterprise funds and fleet services as an internal service fund. In the budgetary management of the enterprise funds, the City has chosen to budget for principal retirement on long-term debt rather than depreciation. Further, the City uses two key financial indicators, fund balance and debt coverage ratios, found in financial policies adopted by City Council to ensure the financial stability of its enterprise funds. Debt coverage is defined as the number of times debt service for the related fund is covered by net income increased for depreciation and amortization expenses, and grant and interest income. Fund balance is defined as total cash less unexpended bond proceeds, customer deposits, and resources dedicated to capital projects. The fund balance ratio is determined by comparing this fund balance amount to operating expenses exclusive of depreciation, and inclusive of principal and interest debt service payments for the fiscal year.

Water Fund

The Water Fund's total net assets increased 2% or \$0.5 million from \$30.8 million at June 30, 2002 to \$31.3 million at June 30, 2003.

Current and other assets increased 8% or \$0.6 million to \$7.8 million for FY 2003 primarily due to increased investments and receivables from a general rate increase to customers ranging from 3% to 5%, and a 38% increase in water connection fees. A total of \$1.4 million of the \$7.8 million in current and other assets was cash and investments, which were not restricted for financial statement reporting purposes, but dedicated to fund capital activity.

Capital assets, net of related debt, of \$25.5 million for FY 2003 increased overall 2% or \$0.5 million. This included an overall \$1 million increase in long-term liabilities totaling \$21.1 million for FY 2003, and a \$1.5 million increase in water infrastructure assets, net of depreciation.

Unrestricted net assets available to fund future expenses were \$5.7 million for FY 2002 and FY 2003, and primarily due to the results of operations. Additionally, debt service costs in FY 2003 were lower than anticipated due to the timing of the annual bond sale which resulted in no debt payments for FY 2003, combined with savings from the refunding issue.

Operating revenues totaled \$8.6 million and increased 4% or \$0.3 million from FY 2002 revenues of \$8.3 million due to rate increases. Operating expenses totaled \$6.9 million and decreased 4% or \$0.3 million from FY 2002 expenses of \$7.2 million. The overall decrease was due to reduced maintenance and repair costs offset by increased chemical and electrical costs related to drought conditions in early FY 2003.

The fund balance of \$4.1 million resulted in a fund balance ratio of 56%, which compared favorably to the City Council adopted policy of 25%. The debt coverage ratio was 1.58, which compared favorably to City Council's-adopted financial policy target of 1.2.

Sewer Fund

The Sewer Fund's total net assets increased 10% or \$6.2 million from \$62.2 million at June 30, 2002 to \$68.4 million at June 30, 2003.

Current and other assets were \$13.3 million for FY 2002 and FY 2003. Investments and receivables increased 10% or \$0.6 million primarily due to a 10% general sewer rate increase and a 55% connection fees increase. A total of \$1.9 million of the \$13.3 million in current and other assets was cash and investments, which were not restricted for financial statement reporting purposes, but dedicated to fund capital activity. Receivables increased by \$0.7 million from members of the regional wastewater treatment plant, while amounts from federal/state grant programs decreased by \$1.4 million.

Capital assets, net of related, debt decreased overall 2% or \$0.9 million due to the following reasons. Construction in progress increased \$1.6 million in FY 2003 from FY 2002, and capitalized infrastructure projects included \$17.8 million for the CSO program, \$2.8 million for a wastewater treatment plant odor control project, along with numerous other sewer extension projects. Additionally, \$7 million of federal/state grant and loan funds for the CSO program as well as future receipts from surrounding counties, which participate in the debt service costs associated with capital improvements to the wastewater treatment plant facility, were reclassified from FY 2002 as invested in capital assets, net of related debt, to restricted net assets in FY 2003.

Long-term liabilities decreased 4% or \$3.4 million from \$87.3 million in FY 2002 to \$83.9 million for FY 2003 as planned retirements exceeded new debt.

Restricted net assets increased by 636% totaling \$7 million as noted above for future counties receipts and federal and state funds.

Unrestricted net assets increased slightly by 3% or \$0.1 million from \$4 million at June 30, 2002 to \$4.1 million at June 30, 2003 due to the results of operations. Additionally, debt service costs in FY 2003 were lower than anticipated due to the timing of the annual bond sale which resulted in no debt payments on the FY 2003 issue, combined with savings from the refunding issue.

Operating revenues totaled \$13.3 million and increased 5% or \$0.6 million from FY 2002 revenues of \$12.7 million. This was due to rate increases. Also, some contract and large use customers had flow decreases that reduced revenues. Operating expenses totaled \$9.1 million and increased 2% or \$0.2 million from FY 2002 expenses of \$8.9 million. This was primarily due to increased depreciation and operating expenses at the wastewater treatment plant related to the fencing, electrical system, and parking lot.

The City Council-adopted financial policies for the Sewer Fund reflect the requirements of the Special Order for Combined Sewer Overflow (CSO) control, as described in Note 18 of this report. The fund balance of \$2 million resulted in a fund balance ratio of 16%, which compared less favorably to the City Council adopted policy of 25%. Additionally, the debt coverage ratio was 1.20, which was consistent with City Council's adopted financial policy target of 1.2. Please refer to Note 9 for details.

Airport Fund

The Airport Fund's total net assets were \$22 million for FY 2002 and FY 2003.

Current and other assets decreased 35% or \$0.5 million due to reduced federal and state receivables for capital grants.

Capital asset activity included the completion of the new General Aviation Terminal at a total cost of \$3 million. Restricted net assets decreased 90% or \$0.9 million due to lower grant capital contributions from the completion of the Terminal project.

Unrestricted net assets available to fund future expenses increased 400% or \$0.8 million due to the results of current operations and the reclassification of federal and state grant funds to unrestricted net assets for FY 2003 from restricted net assets for FY 2002.

Operating revenues totaled \$1.6 million and increased 33% or \$0.4 million from FY 2002 revenues of \$1.2 million. This was due to increased revenues in hangar rental and car rental fees. Operating expenses were \$3 million for FY 2002 and FY 2003.

Because of the subsidy provided from the General Fund of \$0.6 million, the City Council-adopted financial policies were not applicable to this Fund.

Solid Waste Management Fund

The Solid Waste Management Fund's total net assets increased 9% or \$0.6 million from \$6.5 million at June 30, 2002 to \$7.1 million at June 30, 2003.

Current and other assets increased by 7% or \$0.6 million due to increased cash and receivables from 9% disposal rate fee increases. An investment of \$2.6 million was restricted for landfill closure liability.

Capital assets, net of related debt, decreased slightly. This was due primarily to a 10% or \$1 million decrease in capital assets, net of depreciation, from the disposal of some landfill equipment, and a corresponding decrease of 11% or \$1 million in long-term liabilities. Also, a new cell expansion for the existing landfill was completed.

Unrestricted net assets available to fund future expenses increased 14 % or \$0.7 million from \$4.9 million at June 30, 2002 to \$5.6 million at June 30, 2003 due to 9% disposal rate fee increases.

Operating revenues totaled \$5.4 million and increased 13% or \$0.6 million from FY 2002 revenues of \$4.8 million. The increase in the contract private haulers disposal rate was 9% from \$32 per ton to \$35 per ton. In addition, revenues associated with production for contract industrial customers exceeded previous estimates resulting in increased revenues. Operating expenses totaled \$4.8 million and increased 9% or \$0.4 million from FY 2002 expenses of \$4.4 million due to an increase of \$.06 million in landfill closure and post closure expenses offset by a \$0.2 million decrease in maintenance and repairs expenses. Additionally, \$1.3 million of FY 2003 unexpended appropriations carried forward in FY 2004 related to the one-time implementation costs for the new trash collection system.

The fund balance of \$5 million resulted in a fund balance ratio of 75% when considering the FY 2003 unexpended appropriations for the one-time implementation costs of the new trash collection system. This ratio compared favorably to City Council's financial policy target of 40%. Additionally, the debt coverage ratio was 1.36, which compared favorably to City Council's-adopted financial policy target of 1.2.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The primary government's capital assets, net of depreciation, as of June 30, 2003 for its governmental and business-type activities was \$435.3 million, net of depreciation, as reflected in the following schedule. The Schools had \$5.2 million in capital assets. The Greater Lynchburg Transit Company had \$5.0 million in capital assets.

Capital Assets As of June 30, 2003/2002 (in millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Percentage Change	Component Unit Schools		Component Unit Transit	
	2003	2002	2003	2002	2003	2002	2003-2002	2003	2002	2003	2002
	Restated				Restated			Restated			
Non-Depreciable Assets:											
Land	\$ 5.8	\$ 5.8	\$ 5.2	\$ 5.4	\$ 11.0	\$ 11.2	-1.79%	\$ -	\$ -	\$ 0.1	\$ 0.1
Construction in Progress	14.9	33.4	20.3	42.0	35.2	75.4	-53.32%	-	-	-	0.2
Other Capital Assets:											
Land Improvements	3.9	3.1	15.0	15.0	18.9	18.1	4.42%	-	-	-	-
Buildings and Improvements	130.9	119.6	35.7	32.1	166.6	151.7	9.82%	-	-	1.6	1.3
Infrastructure	183.9	171.1	213.6	187.0	397.5	358.1	11.00%	-	-	0.1	0.1
Machinery and Equipment	21.4	19.2	16.1	16.4	37.5	35.6	5.34%	10.8	10.9	8.2	9.0
Less: Accumulated Depreciation	(145.9)	(136.5)	(85.5)	(79.9)	(231.4)	(216.4)	6.93%	(5.6)	(5.1)	(5.0)	(4.8)
Total	\$ 214.9	\$ 215.7	\$ 220.4	\$ 218.0	\$ 435.3	\$ 433.7	0.37%	\$ 5.2	\$ 5.8	\$ 5.0	\$ 5.9

The gross cost and accumulated depreciation balances as of June 30, 2002 were restated to record school buildings originally presented as an asset of the Lynchburg City Schools component unit. Net capital assets in the FY 2002 Comprehensive Annual Financial Report were reported as \$211.6 million for governmental activities and \$9.4 million for the Schools' component unit. The net effect of the restatement was a \$4.1 million increase in governmental activities investment in capital assets and a \$3.6 million decrease for Schools' capital assets. The difference between the governmental activity restatement and the Schools' restatement was due to \$0.5 million of construction in progress additions that originally were not reported in prior financial reports.

During FY 2003, the City's net increase in capital assets (including additions, decreases, and depreciation) was 0.3% or \$1.6 million. Several major construction projects were completed which accounted for the \$40.2 million net decrease in construction in progress. Major additions to capital assets during the current fiscal year included the following (in millions):

Combined Sewer Overflow (CSO) replacement projects, financed by Virginia Revolving Loans Fund (VRLF), State and Federal CSO grants, general obligation bonds.	\$17.8
Completion of the Enterprise Drive extension street project financed by Virginia Department of Transportation (VDOT) grants.	10.6
Completion of the Linkhorne Middle School renovation project financed by a Virginia Public School Authority bond and general obligation bonds.	10.6
Completion of several Lynchburg Regional Airport additions and improvements including the construction of a service road and a General Aviation Terminal building, financed by federal and state grants.	3.0
Completion of the Wastewater Treatment Plant Odor Control project, financed by Virginia Revolving Loans Fund (VRLF).	2.8
Total	<u>\$44.8</u>

Construction in progress included additional CSO abatement projects, renovation of the baseball stadium, a variety of street, bridge, water, sewer, recreation projects, renovation of E. C. Glass High School, renovations to Monument Terrace Grand Staircase landmark, Ninth Street improvements and the Route 460 East waterline project. Detailed information on the City's capital assets is included in Note 7 to this report.

Long-term Debt

At the end of FY 2003, the City's total outstanding debt was \$205.1 million, with \$117 million of business-type activities debt supported by the individual funds, resulting in net bonded debt for governmental activities of \$88.1 million. A capital lease of \$2.2 million for the regional radio system was included in outstanding debt while liabilities for compensated absences and workers' compensation of \$4.5 million, and landfill closure liability of \$2.6 million were excluded.

Lynchburg's Outstanding Debt General Obligation and Revenue Bonds As of June 30, 2003/2002 (in millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Percentage Change
	2003	2002	2003	2002	2003	2002	2003-2002
General Obligation Bonds	\$ 85.2	\$ 71.9	\$ 64.1	\$ 63.5	\$ 149.3	\$ 135.4	10.27%
Revenue Bonds	-	-	52.9	56.1	52.9	56.1	-5.70%
Lease Revenue Bonds	2.1	2.4	-	-	2.1	2.4	-12.50%
Literary Bonds	0.2	0.3	-	-	0.2	0.3	-33.33%
General Obligation Note	0.6	9.3	-	-	0.6	9.3	-93.55%
Total	<u>\$ 88.1</u>	<u>\$ 83.9</u>	<u>\$ 117.0</u>	<u>\$ 119.6</u>	<u>\$ 205.1</u>	<u>\$ 203.5</u>	<u>0.79%</u>

During FY 2003, the City retired \$45.1 million of outstanding principal, of which \$23.4 million was refunded bonds, and \$7.5 million was a Schools' bond anticipation note. The City issued \$46.9 million of new long-term debt. Included in the new debt was a \$23.7 million refunding issue, a \$6.5 million Virginia Public School Authority bond (VPSA) and \$16.7 million of new long-term debt. The refunding issue consisted of \$8.5 million of governmental activities debt, and \$15.2 million of business-type activities debt. The new debt consisted of \$11.7 million for various governmental public improvements, and \$5 million in self-supporting debt for enterprise funds.

The City's general obligation bonds continued to maintain an Aa3 rating from Moody's Investors Service, an AA rating from Standard and Poor's Rating Service and an AA rating from Fitch Investors. A City Council-adopted policy provides that tax-supported debt should not exceed 5% of net assessed valuation of taxable property in the City. As of the end of FY 2003, outstanding tax-supported debt was 2.38% of net assessed valuation.

Detailed information on the City's long-term debt is included in Note 9 to this report.

ECONOMIC FACTORS

The City's unemployment rate for June 2003 was 6.7%, which was 2.5% more than the same period in FY 2002. This compares to the state's unemployment rate of 4.3% and the national average rate of 6.4% for June 2003.

The City is a regional commercial center and continues to experience modest retail sector growth and the addition of national and regional restaurant chains in its primary commercial corridor. Despite a weak economy, the City experienced some sales and meals tax revenue growth in the last quarter of FY 2003.

The City continues to focus on the retention and expansion of existing businesses with some degree of success. Economic development initiatives include supporting the continued development of public and private industrial parks, the creation of two Technology Zones coincident with existing Enterprise Zones, and the use of various targeted incentives including subsidized land and infrastructure and cash grants.

A number of public private redevelopment efforts are underway in the downtown business district. Altogether, nearly \$100 million in investment will be made in the period between 2001 and 2004 to renovate existing historical structures, build new facilities and improve public infrastructure, parks and streetscapes. Renovations to a historic shoe factory to provide residential condominiums, art space and retail operations in a complex to be called Riverviews Artspace were nearing completion at the end of the fiscal year. Construction began on new lodging, dining and meeting facilities to be provided in two restored buildings to be known as the BluffWalk Center. The complex will include a forty-room boutique hotel, a conference center, a high-end restaurant, and a microbrewery. Several new loft apartment housing projects also are expected to begin construction in the next year, providing over 100 new dwelling units downtown. Government projects included a new facility for the City's Department of Human Services completed in April 2003. The new facility is an excellent example of adaptive reuse of a historic building (circa 1911) that once served as a warehouse and dry goods business on the riverfront. The \$9.5 million project was accomplished through a limited partnership, which enabled the use of \$1.1 million in historic tax credits. The relocation of the Human Services workforce downtown creates a convenient government center and serves as a catalyst for further economic development by bringing more than 200 people downtown daily. A new \$14 million federal project is under construction and expected to be completed in 2004. The complex will house the federal courts, a post office, and other federal departments such as the U.S. Marshall Service, the Federal Bureau of Investigations (FBI), and the Internal Revenue Service (IRS).

The business and government functions operating at the airport facility annually generate a \$13.8 million direct economic impact. With the airport's introduction of jet service to Atlanta, Georgia, ticket sales for passenger travel on Delta Airlines has doubled and the quality of service has been enhanced.

For FY 2004, the adopted General Fund Budget included funding for a 2% compensation adjustment for the City's and Schools' employees, and maintained the current tax rates. Subsequently, the Lynchburg City School Board approved a 3% compensation adjustment for Schools' employees.

Although the City's Water and Solid Waste Funds achieved or exceeded City Council's financial policy targets, the Sewer Fund continued to be financially challenged to meet the targets. Adopted financial policies require rate reviews a minimum of every two years for the Water, Sewer and Solid Waste Funds. Typically, rates for the Water and Sewer Funds are reviewed annually with necessary changes implemented at the beginning of each fiscal year. For FY 2004, phasing out the block water rate structure resulted in rate increases of 10% or 21.3% for certain customers, which were mostly business customers. Sewer rates were increased 8.6% with most of the increase directed toward continuation of the Combined Sewer Overflow (CSO) Correction Program. In March 2002, the City received the results of solid waste rate analysis. The purpose of the study was to

determine the cost of the City's solid waste programs, including residential refuse collection, recycling, brush/bulk collection, and landfill disposal costs, as well as the rates that would be required to recover these costs. Based on the study, effective January 1, 2004, in addition to the annual decal fee of \$40.00, a \$5.00 per month disposal fee will be charged to residential and small multi-family units to cover the costs of certain "common good" services such as recycling, bulk and brush pick up, litter control, and response to illegal dumping.

REQUESTS FOR INFORMATION

This report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Financial Services, City of Lynchburg, P.O. Box 60, Lynchburg, VA. 24505; or, via telephone at 434-455-4220. This report is on the City's web site at www.lynchburgva.gov.

Basic Financial Statements

CITY OF LYNCHBURG, VIRGINIA

Statement of Net Assets June 30, 2003

	Governmental Activities	Business Type Activities	Total Primary Government	Component Units		Total Reporting Unit
				Schools	Other	
Assets						
Cash and cash equivalents	\$ 25,324,939	\$ 15,276,287	\$ 40,601,226	\$ 9,429,226	\$ 478,878	\$ 50,509,330
Cash - restricted for landfill closure	-	2,645,252	2,645,252	-	-	2,645,252
Receivables (net of allowance for uncollectibles)	16,798,176	3,480,457	20,278,633	1,962,130	994,882	23,235,645
Internal balances	501,413	(501,413)	-	-	-	-
Due from component unit	170,936	-	170,936	-	-	170,936
Prepays and other assets	1,058,555	410,297	1,468,852	1,139,733	134,007	2,742,592
Restricted assets:						
Cash and cash equivalents	4,819,082	1,931,523	6,750,605	75,754	-	6,826,359
Intergovernmental receivable	20,612	7,038,269	7,058,881	-	-	7,058,881
Capital assets:						
Land and improvements	8,382,929	9,712,757	18,095,686	-	63,152	18,158,838
Buildings and improvements	62,861,249	24,285,775	87,147,024	-	479,489	87,626,513
Machinery and equipment	9,798,311	4,967,971	14,766,282	5,236,475	4,427,819	24,430,576
Construction in progress	14,882,536	19,534,024	34,416,560	-	-	34,416,560
Infrastructure	118,939,316	161,954,816	280,894,132	-	68,227	280,962,359
Total assets	<u>263,558,054</u>	<u>250,736,015</u>	<u>514,294,069</u>	<u>17,843,318</u>	<u>6,646,454</u>	<u>538,783,841</u>
Liabilities						
Accounts payable and other current liabilities	8,735,820	2,170,719	10,906,539	8,482,927	857,048	20,246,514
Interest payable	1,059,436	780,065	1,839,501	-	-	1,839,501
Due to primary government	-	-	-	-	170,936	170,936
Liabilities payable from restricted assets	54,720	-	54,720	-	-	54,720
Unearned revenue	-	107,000	107,000	145,072	-	252,072
Noncurrent liabilities:						
Due within one year	7,217,366	7,724,730	14,942,096	753,595	250,000	15,945,691
Due in more than one year	85,298,347	111,618,174	196,916,521	1,811,516	-	198,728,037
Total liabilities	<u>102,365,689</u>	<u>122,400,688</u>	<u>224,766,377</u>	<u>11,193,110</u>	<u>1,277,984</u>	<u>237,237,471</u>
Net assets						
Invested in capital assets, net of related debt	130,892,517	105,589,397	236,481,914	5,236,475	5,038,687	246,757,076
Restricted	55,409	7,184,652	7,240,061	75,754	-	7,315,815
Unrestricted	30,244,439	15,561,278	45,805,717	1,337,979	329,783	47,473,479
Total net assets	<u>\$ 161,192,365</u>	<u>\$ 128,335,327</u>	<u>\$ 289,527,692</u>	<u>\$ 6,650,208</u>	<u>\$ 5,368,470</u>	<u>\$ 301,546,370</u>

The notes to the financial statements are an integral part of this statement.

CITY OF LYNCHBURG, VIRGINIA

Statement of Activities
Year Ended June 30, 2003

					Net (Expense) Revenue and Changes in Net Assets					
Functions/Programs	Program Revenues				Primary Government			Component Units		Total Reporting Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Schools	Other	
Primary government:										
Governmental activities:										
General government	\$ 15,127,680	\$ 284,055	\$ 293,885	\$ -	\$ (14,549,740)	\$ -	\$ (14,549,740)	\$ -	\$ -	\$ (14,549,740)
Education	28,371,163	-	-	1,628,768	(26,742,395)	-	(26,742,395)	-	-	(26,742,395)
Judicial	3,846,581	640,239	2,136,762	-	(1,069,580)	-	(1,069,580)	-	-	(1,069,580)
Health and human services	19,704,149	754,347	12,310,769	-	(6,639,033)	-	(6,639,033)	-	-	(6,639,033)
Public safety	28,911,487	3,885,871	3,471,058	-	(21,554,558)	-	(21,554,558)	-	-	(21,554,558)
Public works	20,819,441	572,327	7,089,341	1,193,119	(11,964,654)	-	(11,964,654)	-	-	(11,964,654)
Community development	5,298,688	753,452	2,720,206	531,215	(1,293,815)	-	(1,293,815)	-	-	(1,293,815)
Cultural and recreational	4,262,645	517,625	219,712	-	(3,525,308)	-	(3,525,308)	-	-	(3,525,308)
Non-departmental	2,806,878	-	-	-	(2,806,878)	-	(2,806,878)	-	-	(2,806,878)
Interest and fees on long-term debt	4,230,625	-	-	-	(4,230,625)	-	(4,230,625)	-	-	(4,230,625)
Total governmental activities	133,379,337	7,407,916	28,241,733	3,353,102	(94,376,586)	-	(94,376,586)	-	-	(94,376,586)
Business-type activities:										
Water	7,855,213	8,607,032	-	-	-	751,819	751,819	-	-	751,819
Sewer	11,093,129	13,932,357	38,500	3,207,979	-	6,085,707	6,085,707	-	-	6,085,707
Airport	3,118,741	1,586,178	194,190	774,355	-	(564,018)	(564,018)	-	-	(564,018)
Solid Waste Management	5,488,691	5,459,258	191,039	-	-	161,606	161,606	-	-	161,606
Total business-type activities	27,555,774	29,584,825	423,729	3,982,334	-	6,435,114	6,435,114	-	-	6,435,114
Total primary government	\$ 160,935,111	\$ 36,992,741	\$ 28,665,462	\$ 7,335,436	(94,376,586)	6,435,114	(87,941,472)	-	-	(87,941,472)
Component units:										
Schools	\$ 72,568,520	\$ 1,518,997	\$ 43,487,157	\$ -	-	-	-	(27,562,366)	-	(27,562,366)
Greater Lynchburg Transit Company	4,375,462	987,839	1,896,283	111,721	-	-	-	-	(1,379,619)	(1,379,619)
Business Development Center	507,936	236,922	237,697	-	-	-	-	-	(33,317)	(33,317)
Total component units	\$ 77,451,918	\$ 2,743,758	\$ 45,621,137	\$ 111,721	-	-	-	(27,562,366)	(1,412,936)	(28,975,302)
General revenues:										
Property taxes					43,783,096	-	43,783,096	-	-	43,783,096
Other taxes					37,588,641	-	37,588,641	-	-	37,588,641
Unrestricted intergovernmental					8,961,598	-	8,961,598	-	-	8,961,598
Interest					613,103	952,358	1,565,461	2,013	-	1,567,474
Miscellaneous					3,008,299	196,873	3,205,172	401,962	92,186	3,699,320
City appropriation					-	-	-	27,025,411	530,015	27,555,426
Gain on sale of assets					122,302	(190,589)	(68,287)	-	-	(68,287)
Transfers					571,552	(571,552)	-	-	-	-
Total general revenues and transfers					94,648,591	387,090	95,035,681	27,429,386	622,201	123,087,268
Change in net assets					272,005	6,822,204	7,094,209	(132,980)	(790,735)	6,170,494
Net assets - beginning, as adjusted					160,920,360	121,513,123	282,433,483	6,783,188	6,159,205	295,375,876
Net assets - ending					\$ 161,192,365	\$ 128,335,327	\$ 289,527,692	\$ 6,650,208	\$ 5,368,470	\$ 301,546,370

The notes to the financial statements are an integral part of this statement.

CITY OF LYNCHBURG, VIRGINIA

Balance Sheet
Governmental Funds
June 30, 2003

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 17,400,910	\$ 9,961,045	\$ 27,361,955
Receivables:			
Taxes excluding penalties	1,626,466	-	1,626,466
Accounts	4,182,332	-	4,182,332
Other	377,684	529,629	907,313
Due from other funds	1,132,840	-	1,132,840
Due from component units	15,936	155,000	170,936
Due from other governments	3,298,243	2,340,817	5,639,060
Other assets	964,084	4,432	968,516
Restricted cash and cash equivalents	442,444	-	442,444
Total assets	\$ 29,440,939	\$ 12,990,923	\$ 42,431,862
Liabilities and fund balances			
Liabilities:			
Accounts payable	\$ 1,927,426	\$ 2,041,939	\$ 3,969,365
Accrued liabilities	2,773,025	84,794	2,857,819
Retainage payable	12,362	380,909	393,271
Due to other governments	19,444	28,004	47,448
Due to other funds	-	1,132,840	1,132,840
Deposits payable from restricted assets	54,720	-	54,720
Deferred revenue	2,690,652	578,072	3,268,724
Workers' compensation payable	105,466	-	105,466
Total liabilities	7,583,095	4,246,558	11,829,653
Fund balances:			
Reserved for:			
Encumbrances	944,980	2,539,641	3,484,621
Unreserved:			
Designated	3,808,769	-	3,808,769
Undesignated	17,104,095	-	17,104,095
Unreserved, reported in nonmajor:			
Special revenue			
Designated	-	1,300,727	1,300,727
Undesignated	-	1,718,834	1,718,834
Capital projects			
Designated	-	14,064,540	14,064,540
Undesignated	-	(10,879,377)	(10,879,377)
Total fund balances	21,857,844	8,744,365	30,602,209
Total liabilities and fund balances	\$ 29,440,939	\$ 12,990,923	\$ 42,431,862

The notes to the financial statements are an integral part of this statement.

CITY OF LYNCHBURG, VIRGINIA

**Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2003**

Amounts reported for governmental activities in the statement of net assets are different because:

Ending fund balance - governmental funds	\$ 30,602,209
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Capital assets	214,864,341	
Less: Internal service capital assets	<u>(9,250,432)</u>	
		205,613,909

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	7,295,801
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Internal service funds are used by management to charge the costs of vehicle maintenance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	10,030,257
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Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Bonds payable	(86,127,036)	
Accrued interest payable	(1,059,436)	
Capital leases payable	(2,186,629)	
Compensated absences	(3,620,889)	
Workers compensation	<u>(581,159)</u>	
	(93,575,149)	
Add back: Internal Service bonds payable	1,195,000	
Add back: Internal Service compensated absences	30,338	<u>(92,349,811)</u>

Net assets of governmental activities	<u>\$ 161,192,365</u>
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CITY OF LYNCHBURG, VIRGINIA

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2003**

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 80,652,301	\$ 1,114,213	\$ 81,766,514
Regulatory licenses, permits and privilege fees	675,311	-	675,311
Intergovernmental	28,410,482	11,351,548	39,762,030
Fines and forfeitures	538,753	-	538,753
Revenue from use of money and property	920,401	149,681	1,070,082
Charges for services	3,486,991	2,238,314	5,725,305
Miscellaneous	3,283,568	1,334,504	4,618,072
Total revenues	<u>117,967,807</u>	<u>16,188,260</u>	<u>134,156,067</u>
Expenditures			
Current:			
General government	14,421,107	180,326	14,601,433
Education	27,025,411	-	27,025,411
Judicial	3,560,726	138,843	3,699,569
Health and human services	14,596,916	2,993,548	17,590,464
Public safety	22,472,414	5,002,734	27,475,148
Public works	13,541,234	8,681	13,549,915
Community development	2,082,214	2,738,636	4,820,850
Cultural and recreational	3,874,887	54,208	3,929,095
Non-departmental	2,683,294	123,584	2,806,878
Capital outlay	-	10,402,729	10,402,729
Debt service:			
Principal retirement	21,322,543	1,735,809	23,058,352
Interest payments	3,479,744	382,422	3,862,166
Total expenditures	<u>129,060,490</u>	<u>23,761,520</u>	<u>152,822,010</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(11,092,683)</u>	<u>(7,573,260)</u>	<u>(18,665,943)</u>
Other financing sources (uses)			
Proceeds from debt issues	15,648,755	10,657,839	26,306,594
Construction advance	-	(3,525,664)	(3,525,664)
Transfers in	1,696,702	4,964,110	6,660,812
Transfer out	(6,976,578)	(810,315)	(7,786,893)
Total other financing sources (uses)	<u>10,368,879</u>	<u>11,285,970</u>	<u>21,654,849</u>
Net change in fund balances	<u>(723,804)</u>	<u>3,712,710</u>	<u>2,988,906</u>
Fund balance - beginning, as adjusted	<u>22,581,648</u>	<u>5,031,655</u>	<u>27,613,303</u>
Fund balance - ending	<u>\$ 21,857,844</u>	<u>\$ 8,744,365</u>	<u>\$ 30,602,209</u>

The notes to the financial statements are an integral part of this statement.

CITY OF LYNCHBURG, VIRGINIA

**Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balance to the Statement of Activities
Year Ended June 30, 2003**

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ 2,988,906
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the detail of the two components.</p>	
Capital outlay	10,402,729
Depreciation expense	(9,463,039)
The net effect of various miscellaneous transactions involving capital assets (sales, reduction in construction in progress) is to decrease net assets.	(3,196,736)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	2,319,133
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related accounts.	(3,248,242)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(726,411)
The internal service fund is used by management to charge the costs of vehicle maintenance.	1,697,633
The net loss of certain activities of the internal service fund is reported with governmental activities.	(501,968)
Change in net assets of governmental activities	<u>\$ 272,005</u>

City of Lynchburg, Virginia

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

General Fund

Year Ended June 30, 2003

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 86,017,461	\$ 80,708,509	\$ 80,652,301	\$ (56,208)
Regulatory licenses, permits and privilege fees	602,125	649,590	675,311	25,721
Intergovernmental	21,861,765	28,152,962	28,410,482	257,520
Fines and forfeitures	745,000	550,300	538,753	(11,547)
Revenue from use of money and property	1,650,065	1,181,499	920,401	(261,098)
Charges for services	3,520,975	3,412,767	3,486,991	74,224
Miscellaneous	3,611,969	3,651,362	3,283,568	(367,794)
Total revenues	118,009,360	118,306,989	117,967,807	(339,182)
Expenditures				
Current:				
General government	14,327,402	15,410,368	14,421,107	989,261
Education	31,426,426	27,025,411	27,025,411	-
Judicial	3,663,407	3,649,285	3,560,726	88,559
Health and human services	14,259,076	15,864,867	14,596,916	1,267,951
Public safety	22,602,598	22,680,734	22,472,414	208,320
Public works	13,643,266	14,088,574	13,541,234	547,340
Community development	1,976,491	2,370,705	2,082,214	288,491
Cultural and recreational	4,201,190	4,268,490	3,874,887	393,603
Non-departmental	2,187,591	2,282,337	2,683,294	(400,957)
Principal retirement	3,314,967	21,322,543	21,322,543	-
Interest payments	2,274,233	3,620,362	3,479,744	140,618
Total expenditures	113,876,647	132,583,676	129,060,490	3,523,186
Excess (deficiency) of revenues over (under) expenditures	4,132,713	(14,276,687)	(11,092,683)	(3,862,368)
Other financing sources (uses)				
Proceeds from debt issues	-	15,648,755	15,648,755	-
Transfers in	1,041,419	1,496,159	1,696,702	200,543
Transfers out	(5,603,558)	(7,112,141)	(6,976,578)	135,563
Total other financing sources (uses)	(4,562,139)	10,032,773	10,368,879	336,106
Net change in fund balances	(429,426)	(4,243,914)	(723,804)	3,520,110
Fund balance - beginning	-	-	22,581,648	22,581,648
Fund balance - ending	\$ (429,426)	\$ (4,243,914)	\$ 21,857,844	\$ 26,101,758

The notes to the financial statements are an integral part of this statement.

City of Lynchburg, Virginia

Statement of Net Assets
Proprietary Funds
June 30, 2003

	Enterprise Funds					Internal Service Fund
	Water Fund	Sewer Fund	Airport Fund	Solid Waste Management Fund	Total	
Assets						
Current assets						
Cash and cash equivalents	\$ 5,467,351	\$ 3,856,659	\$ 614,126	\$ 5,338,151	\$ 15,276,287	\$ 1,838,246
Cash - restricted for landfill closure	-	-	-	2,645,252	2,645,252	-
Receivables (net of allowance for doubtful accounts):						
Accounts	920,015	1,612,043	57,879	718,342	3,308,279	7,953
Other	42,641	93,251	36,286	-	172,178	-
Due from other governments	107,000	682,990	-	-	789,990	-
Inventory	410,297	-	-	-	410,297	90,039
Due from members - Regional Sewage Treatment Plant	-	431,007	-	-	431,007	-
Total current assets	6,947,304	6,675,950	708,291	8,701,745	23,033,290	1,936,238
Noncurrent assets						
Due from other governments, capital	-	-	60,507	-	60,507	-
Due from members - Regional Sewage Treatment Plant	-	5,756,765	-	-	5,756,765	-
Restricted cash and cash equivalents	901,697	896,632	133,194	-	1,931,523	501,376
Capital assets, net	46,099,178	140,311,074	24,313,166	9,731,925	220,455,343	9,250,432
Total noncurrent assets	47,000,875	146,964,471	24,506,867	9,731,925	228,204,138	9,751,808
Total assets	53,948,179	153,640,421	25,215,158	18,433,670	251,237,428	11,688,046
Liabilities and net assets						
Current liabilities						
Accounts payable	506,843	680,298	50,732	163,515	1,401,388	411,891
Accrued liabilities	457,204	605,568	123,237	243,785	1,429,794	50,898
Retainage payable	108,723	36,852	15,850	-	161,425	-
Due to other governments	4,743	-	-	-	4,743	-
Current portion of general obligation bonds payable	1,226,503	1,828,045	314,730	1,052,949	4,422,227	95,000
Current portion of public utility revenue bonds payable	-	3,222,686	-	-	3,222,686	-
Current portion of landfill closure liability	-	-	-	79,817	79,817	-
Total current liabilities	2,304,016	6,373,449	504,549	1,540,066	10,722,080	557,789
Noncurrent liabilities						
Deposits payable from restricted assets	340,063	-	-	-	340,063	-
Deferred revenue	107,000	-	-	-	107,000	-
General obligation bonds payable	19,912,193	29,083,160	2,671,999	7,248,698	58,916,050	1,100,000
Public utility revenue bonds payable	-	49,750,060	-	-	49,750,060	-
Landfill closure liability	-	-	-	2,565,435	2,565,435	-
Total noncurrent liabilities	20,359,256	78,833,220	2,671,999	9,814,133	111,678,608	1,100,000
Total liabilities	22,663,272	85,206,669	3,176,548	11,354,199	122,400,688	1,657,789
Net assets						
Investment in capital assets, net of related debt	25,514,601	57,318,081	21,326,437	1,430,278	105,589,397	8,554,380
Restricted	7,515	7,043,943	133,194	-	7,184,652	2,428
Unrestricted	5,762,791	4,071,728	578,979	5,649,193	16,062,691	1,473,449
Total net assets	\$ 31,284,907	\$ 68,433,752	\$ 22,038,610	\$ 7,079,471	\$ 128,836,740	\$ 10,030,257
Reconciliation with business type activities in the statement of net assets:						
Total net assets - enterprise funds reported in this statement					\$ 128,836,740	
Internal service fund activity is eliminated for the statement of activities, with residual activity allocated to user departments					(501,413)	
Total net assets of business type activities					\$ 128,335,327	

The notes to the financial statements are an integral part of this statement.

City of Lynchburg, Virginia

Statement of Revenues, Expenses, and Changes in Fund Net Assets

Proprietary Funds

Year Ended June 30, 2003

	Enterprise Funds				Internal Service Fund
	Water Fund	Sewer Fund	Airport Fund	Solid Waste Management Fund	Total
Operating revenues					
Charges for services and other operating revenues	\$ 8,607,032	\$ 13,273,211	\$ 1,580,881	\$ 5,412,580	\$ 28,873,704
Total operating revenues	8,607,032	13,273,211	1,580,881	5,412,580	28,873,704
Operating expenses					
Operations	4,323,575	4,063,221	1,075,965	3,023,374	12,486,135
Landfill closure and postclosure care	-	-	-	245,102	245,102
Administration	910,404	1,704,560	425,436	701,245	3,741,645
Maintenance and repairs	125,971	53,233	117,334	-	296,538
Depreciation	1,575,929	3,312,342	1,397,321	869,917	7,155,509
Total operating expenses	6,935,879	9,133,356	3,016,056	4,839,638	23,924,929
Operating income (loss)	1,671,153	4,139,855	(1,435,175)	572,942	4,948,775
Nonoperating revenue (expense)					
Interest income (net of interest capitalized)	69,732	744,837	7,922	129,867	952,358
Governmental grants	-	38,500	8,532	191,039	238,071
Passenger facility charges	-	-	185,658	-	185,658
Miscellaneous	54,449	140,041	12,386	46,678	253,554
Gain (loss) on disposition of assets	-	(3,851)	-	(190,589)	(194,440)
Interest on long-term debt (net of interest capitalized)	(875,982)	(1,919,090)	(93,583)	(334,840)	(3,223,495)
Total nonoperating revenue (expense)	(751,801)	(999,563)	120,915	(157,845)	(1,788,294)
Income (loss) before transfers and contributions	919,352	3,140,292	(1,314,260)	415,097	3,160,481
Transfers in	-	-	577,933	732,529	1,310,462
Transfers out	(452,628)	(806,668)	(25,560)	(597,158)	(1,882,014)
Capital contributions	-	3,867,125	769,649	-	4,636,774
Change in net assets	466,724	6,200,749	7,762	550,468	7,225,703
Total net assets - beginning	30,818,183	62,233,003	22,030,848	6,529,003	121,611,037
Total net assets - ending	\$ 31,284,907	\$ 68,433,752	\$ 22,038,610	\$ 7,079,471	\$ 128,836,740

Reconciliation with business type activities in the statement of activities:

Change in net assets - enterprise funds reported in this statement	\$ 7,225,703
Internal service fund activity is eliminated for the statement of activities, with residual activity allocated to user departments	(403,499)
Change in net assets of business type activities	\$ 6,822,204

CITY OF LYNCHBURG, VIRGINIA

**Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2003**

	Enterprise Funds					Internal Service Funds
	Water Fund	Sewer Fund	Airport Fund	Solid Waste Management Fund	Total	
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from operations	\$ 8,570,168	\$ 13,622,213	\$ 1,690,194	\$ 5,253,186	\$ 29,135,761	\$ 1,660,176
Cash paid to employees	(1,746,131)	(1,305,740)	(800,662)	(1,161,816)	(5,014,349)	(402,791)
Cash paid to suppliers	(3,231,015)	(5,060,293)	(1,196,546)	(2,615,430)	(12,103,284)	(902,279)
Cash used in operating activities	(4,977,146)	(6,366,033)	(1,997,208)	(3,777,246)	(17,117,633)	(1,305,070)
Net cash provided from (used in) operating activities	3,593,022	7,256,180	(307,014)	1,475,940	12,018,128	355,106
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers to other funds	(527,251)	(806,668)	(25,560)	(597,158)	(1,956,637)	-
Advances from other funds	-	(53,284)	(130,233)	675,887	492,370	1,680,915
Net cash provided from (used in) noncapital financing activities	(527,251)	(859,952)	(155,793)	78,729	(1,464,267)	1,680,915
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from issuance of long-term debt						
General obligation bonds	2,511,248	2,014,770	527,680	-	5,053,698	1,208,800
Payment of long-term debt						
General obligation bonds	(1,267,659)	(2,007,725)	(363,662)	(988,250)	(4,627,296)	-
Revenue bonds	-	(3,109,085)	-	-	(3,109,085)	-
Drawdowns of public utility revenue bonds - revolving loan funds	-	1,391,024	-	-	1,391,024	-
Payments from members regional sewage treatment plant	-	585,336	-	-	585,336	-
Payment of interest on long-term debt	(875,100)	(1,922,099)	(116,263)	(342,181)	(3,255,643)	-
Capital contributions received	-	2,767,001	769,649	-	3,536,650	-
Intergovernmental grants	-	38,500	37,017	191,039	266,556	-
Passenger Facility Charges collected	-	-	185,658	-	185,658	-
Proceeds from sale of capital assets	-	-	-	61,600	61,600	-
Additions to capital assets	(2,946,862)	(5,589,053)	(965,279)	(129,424)	(9,630,618)	(2,503,063)
Proceeds from (payments to) other organizations	59,192	140,041	12,386	46,678	258,297	184,963
Net cash provided from (used in) capital and related financing activities	(2,519,181)	(5,691,290)	87,186	(1,160,538)	(9,283,823)	(1,109,300)
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest income received	69,732	55,615	7,922	129,867	263,136	6,897
Interest income received from members regional sewage treatment plant	-	199,679	-	-	199,679	-
Net cash provided from investing activities	69,732	255,294	7,922	129,867	462,815	6,897
Net increase (decrease) in cash and cash equivalents	616,322	960,232	(367,699)	523,998	1,732,853	933,618
CASH AND CASH EQUIVALENTS						
Beginning	5,752,726	3,793,059	1,115,019	7,459,405	18,120,209	1,406,004
Ending	\$ 6,369,048	\$ 4,753,291	\$ 747,320	\$ 7,983,403	\$ 19,853,062	\$ 2,339,622
Current Assets	\$ 5,467,351	\$ 3,856,659	\$ 614,126	\$ 5,338,151	\$ 15,276,287	\$ 1,838,246
Current Assets - designated for landfill closure	-	-	-	2,645,252	2,645,252	-
Restricted Assets	901,697	896,632	133,194	-	1,931,523	501,376
	\$ 6,369,048	\$ 4,753,291	\$ 747,320	\$ 7,983,403	\$ 19,853,062	\$ 2,339,622

The notes to the financial statements are an integral part to this statement
RECONCILIATION OF OPERATING INCOME TO NET CASH

CITY OF LYNCHBURG, VIRGINIA

**Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2003**

	Enterprise Funds					Internal Service Funds
	Water Fund	Sewer Fund	Airport Fund	Solid Waste Management Fund	Total	
PROVIDED BY OPERATING ACTIVITIES						
Operating income	\$ 1,671,153	\$ 4,139,855	\$ (1,435,175)	\$ 572,942	\$ 4,948,775	\$ (1,111,127)
Adjustments to reconcile operating income to net cash provided by operations						
Depreciation	1,575,929	3,312,342	1,397,321	869,917	7,155,509	1,134,319
Provision for bad debt	(41,734)	(99,535)	(3,410)	-	(144,679)	-
Landfill closure and postclosure cost	-	-	-	245,102	245,102	-
Changes in assets and liabilities						
(Increase) decrease in accounts receivable	(36,864)	349,002	109,313	(159,394)	262,057	39,727
Decrease in inventory	7,193	-	-	-	7,193	14,532
Increase (decrease) in trade accounts payable	230,325	(235,804)	(289,645)	(95,420)	(390,544)	261,381
Increase (decrease) in accrued expenses	82,248	(7,410)	14,179	42,793	131,810	16,274
Increase (decrease) in retainage payable	64,128	(202,270)	(59,502)	-	(197,644)	-
Increase (decrease) in deposits payable	40,644	-	(40,095)	-	549	-
Net cash provided from (used in) operating activities	<u>\$ 3,593,022</u>	<u>\$ 7,256,180</u>	<u>\$ (307,014)</u>	<u>\$ 1,475,940</u>	<u>\$ 12,018,128</u>	<u>\$ 355,106</u>
Supplemental Cash Flow Information						
NON-CASH TRANSACTIONS						
Contributed capital by member localities in the regional treatment plant financed by a long-term note	\$ -	\$ 525,955	\$ -	\$ -	\$ 525,955	\$ -
Discount adjustment on Due from members - Regional Sewage Treatment Plant	-	489,543	-	-	489,543	-
Capitalized interest	99,068	48,191	21,821	11,340	180,420	-
Amortization/accretion of discounts and premiums on general obligation bonds	(18,772)	(28,656)	(2,709)	(11,389)	(61,526)	13,800
Refunding of general obligation bonds	4,225,023	5,620,527	1,058,443	4,080,159	14,984,152	-
Loss on refunding of general obligation bonds	(249,743)	(337,990)	(40,212)	(249,819)	(877,764)	-
Unamortized discount recognized on the refunding of general obligation bonds	60,228	84,208	-	42,211	186,647	-
Premium on issuance of general obligation bonds	133,440	179,190	26,168	153,469	492,267	-

CITY OF LYNCHBURG, VIRGINIA

Statement of Fiduciary Net Assets

Agency Fund

June 30, 2003

	Agency Fund
	Special
	Welfare
Assets	
Cash and cash equivalents	\$ 70,617
Liabilities	
Amounts held for others	\$ 70,617

The notes to the financial statements are an integral part of this statement.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2003

Note 1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

The City of Lynchburg, Virginia (the "City") was founded by John Lynch in 1757, chartered as a town in 1786, and incorporated in 1805. The City operates on a Council-Manager form of Government and provides all municipal services to its residents. As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the City (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

Discretely Presented Component Units: The component units' columns in the combined financial statements include the data of the City's three component units. They are reported in separate columns to emphasize that they are legally separate from the City. The governing bodies of these component units are appointed by City Council.

Lynchburg City Schools: The Lynchburg City Schools (the "Schools") operates one pre-school, eleven elementary, three middle and the two high schools in the City. The Schools are fiscally dependent on the City because the Schools' operational and capital budgets are approved by City Council. In addition, the Schools are prohibited from issuing bonded debt without approval of City Council.

Business Development Centre, Inc.: The Business Development Centre, Inc. (the "Centre") provides business advisory services to small businesses in the Central Virginia area, operates a business incubator, and provides financing for qualifying businesses under certain federal programs. The City provides financial support to the Centre by leasing to the Centre, at a nominal amount, the facility which houses the Centre's operations. The City has agreed to advance operating funds to the Centre to cover working capital needs.

Greater Lynchburg Transit Company: The Greater Lynchburg Transit Company ("GLTC") provides mass transit services to the area. The City provides financial support to GLTC through the assumption of the obligation to finance GLTC's deficits.

Complete financial statements of the individual component units can be obtained directly from their administrative offices at the addresses listed below. The Lynchburg City Schools financial statements are not separately prepared but are included in the City's financial report.

Business Development Centre, Inc.
147 Mill Ridge Road
Lynchburg, Virginia 24502

Greater Lynchburg Transit Company
Post Office Box 797
Lynchburg, Virginia 24505-0797

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2003

Note 1. Summary of Significant Accounting Policies (Continued)

A. Financial Reporting Entity (Continued)

Jointly Governed Organizations: The following entities are excluded from the accompanying financial statements:

Blue Ridge Regional Jail Authority: The Blue Ridge Regional Jail Authority, (the "Authority"), was created by certain Member Jurisdictions for the purpose of developing and operating a regional jail system to be established by acquiring, renovating and expanding certain existing jail facilities and constructing additional jail facilities. The Member Jurisdictions are the Cities of Lynchburg and Bedford and the Counties of Halifax, Bedford, and Campbell. The Authority began operating the existing jail facilities in the Member Jurisdiction on July 1, 1998. The City sold its existing jail facilities to the Authority during FY 1997. A new central jail facility was constructed in Lynchburg and opened in FY 2000. It is owned and operated by the Authority. Each Member Jurisdiction pays a per diem charge for each day that one of its prisoners is at any Regional Jail Facility. In accordance with the Service Agreement, the Authority has divided the per diem charge into an operating component and a debt service component. The per diem charge is based upon an agreed upon number of prisoner days, and is subject to an adjustment at the end of each fiscal year. During the year ended June 30, 2003, the City paid \$3,130,060 to the Authority.

Central Virginia Community Services Board: The City, in conjunction with the counties of Amherst, Appomattox, Bedford and Campbell and the City of Bedford participate in the Central Virginia Community Services Board, which is composed of two members from each of the participating localities. The City appropriated \$414,286 for an operating contribution to the Central Virginia Community Services Board for the year ended June 30, 2003.

Related Organizations: The following entities are excluded from the accompanying financial statements:

Lynchburg Redevelopment and Housing Authority: Under the Code of Virginia ("Code"), the Commonwealth of Virginia ("Commonwealth") created in each city and county a redevelopment and housing authority which is a separate political subdivision of the Commonwealth. Under a resolution approved in April 1956, City Council declared a need for a housing authority in the City, activating the Lynchburg Redevelopment and Housing Authority (the "LRHA"). The LRHA owns and operates federal and state-assisted housing projects for low-income families and administers urban development projects. Commissioners of the LRHA are appointed by City Council; however, City Council is not financially accountable for LRHA.

Industrial Development Authority of the City of Lynchburg: Under the Code of Virginia, City Council passed an ordinance on March 14, 1967, which created the Industrial Development Authority of the City of Lynchburg (the "IDA"). The IDA was established to promote industry and develop trade within the City. The IDA is governed by a board of seven directors appointed by City Council; however, City Council is not financially accountable for the IDA.

Other Boards and Commissions: City Council appoints certain members of various boards and commissions' governing bodies as provided under state and local laws and ordinances. The boards and commissions are advisory in nature and City Council is not financially accountable for these organizations.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2003

Note 1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation

The accounting and reporting policies of the City included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. All applicable GASB Statements have been implemented including GASB Statement No. 34 *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, which the City was required to implement effective fiscal year ended June 30, 2002. The accompanying financial statements present the government and its component units legally separate entities for which the City is financially accountable. As permitted in Section P80 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, the City has elected not to apply to its enterprise funds Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989.

Government-wide Statements: The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the primary government and its component units. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are spent and the means by which spending activities are controlled. The various fund categories and fund types presented in the financial statements are described below:

Governmental Fund Types:

General Fund: The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds: Special Revenue Funds are used to account for the proceeds of specific revenue, other than major capital projects, that are legally restricted to expenditures for specified purposes. These funds consist of the City Federal/State Aid Projects, Community Development Block Grant, Title XX Grant, Museum System, Lynchburg Business Development Centre, Detention Home, Law Library, Recycling Program, Forfeited Assets, Lynchburg Expressway Appearance, Comprehensive Services Act, E-911, Home Investment Trust, Partners In Emergency Response, Central Virginia Regional Radio Board, Technology and City Stadium.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2003

Note 1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

Capital Projects Funds: Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds. This fund consists of the City Capital Projects Fund, Highway Projects Grant Fund, and School Capital Projects Fund.

Proprietary Fund Types:

Enterprise Funds: Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expense incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. These funds consist of the Water, Sewer, Solid Waste Management, and Airport Funds.

The total enterprise funds columns in the proprietary fund statement of net assets and activities are essentially equal to the business-type activity column in the government wide statements, with the exception of the impact of allocating internal service fund activity. For fiscal year 2003, the allocation of internal service fund activity reduced total net assets by \$248,092

Internal Service Funds: To account for the financing of goods and services supplied to other funds of the City on a cost-reimbursement basis. A fleet management fund has been established to account for the operation and maintenance of City vehicles.

Fiduciary Fund Types:

Agency Funds: Agency Funds are used to account for assets held by the City as an agent or custodian for others. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. These funds consist of the Special Welfare Funds.

C. Measurement Focus Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both "measurable" and "available." Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 45 days of the end of the current fiscal period for most revenues and 90 days for grants collectible on a reimbursement basis. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2003

Note 1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus Basis of Accounting (Continued)

Intergovernmental revenues, consisting principally of categorical aid from federal and state agencies, are recognized when earned or at the time of the specific expenditure. Sales and public utility taxes, which are collected by the Commonwealth of Virginia and public utilities, respectively, and subsequently remitted to the City, are recognized as revenues and receivables when measurable and available.

Expenditures in governmental funds are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. The exceptions to this general rule are principal and interest on general long-term debt, which are recognized when due.

Proprietary fund types utilize the accrual basis of accounting. Revenues are recognized when earned, including unbilled utility receivables and expenses are recognized when incurred. Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund and of the City's internal service funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Agency funds are unlike all other types of funds, reporting only assets and liabilities; therefore, agency funds do not have a measurement focus. The agency fund utilizes the accrual basis of accounting to recognize receivables and payables.

The City reports the following major governmental funds: The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general City, except those required to be accounted for in another fund.

The City reports the following major proprietary funds: The *Water Fund*, *Sewer Fund*, *Airport Fund* and *Solid Waste Management Fund*.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1) On or before April 15, the City Manager submits to City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- 2) Public hearings are conducted to obtain taxpayer comments.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2003

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgets and Budgetary Accounting (Continued)

- 3) Prior to June 30, the budget is legally enacted through passage of an appropriations resolution.
- 4) The City Manager is authorized to transfer budget amounts between departments within any fund; however, any revisions that alter the total budget amounts and/or appropriations of any fund must be approved by City Council. City Council approved additional appropriations of \$4,823,725 during the fiscal year ended June 30 primarily for local match for various grants, human services programs, and additional operating expenditures. It also includes a carryforward of unexpended prior year appropriations for continuing programs. The Superintendent of the Schools is authorized to transfer budget amounts within departments; however, any revisions that alter total budget amounts of any department must be approved by the School Board.
- 5) Formal budgetary integration is employed as a management control device during the year for all funds.
- 6) Budgets for the General Fund and the Capital Projects Funds are prepared in accordance with management's and the City Attorney's interpretation of the City Charter, which is principally the cash basis of accounting. Encumbrances are treated as a reservation of fund equity and reappropriated in the next fiscal year. Further, certain revenues, expenditures, and operating transfers related to internal service type functions are not included for budget purposes. The budget for the Lynchburg City Schools (School Operating Special Revenue Fund) is prepared on modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Project budgets are utilized in the Capital Projects Funds. All General Fund appropriations which are not encumbered lapse at year end. Appropriations for the Capital Projects Funds are continued until completion of applicable projects, even when projects extend for more than one fiscal year, or until repealed.

E. Cash and Cash Equivalents

The City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

F. Equity in Cash and Cash Equivalents

Cash received by the City is deposited in various bank accounts. Monies (equity in cash and cash equivalents) for all funds controlled by the City, including funds of the Lynchburg City Schools, a discretely presented component unit, are deposited in a group of bank accounts or used to purchase temporary investments. Restricted cash and temporary cash investments of the General Fund and Enterprise Funds include certain deposits, unexpended bond proceeds and amounts related to the Passenger Facility Charge Program at the Lynchburg Regional Airport.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2003

Note 1. Summary of Significant Accounting Policies (Continued)

G. Investments

Investments are stated at fair value. Interest earned by certain funds of the Discretely Presented Component Unit – Lynchburg City Schools is allocated to the General Fund. All other interest is allocated to the fund which owns the underlying investments.

H. Receivables

Receivables are presented net of allowances for doubtful accounts. The amounts of these allowances by fund follow:

General Fund	\$1,405,484
Enterprise Funds	298,700

I. Inventory

Inventories consist of major items held for consumption by the governmental funds. Inventories are valued at cost using the first-in, first-out (FIFO) method. Disbursements for inventory type items of the City are considered to be expenditures at the time of use ("consumption method" of accounting). Supplies transferred to and consumed by the individual departments are considered a reduction of inventory and an expenditure of the user department.

Inventory in the Enterprise Funds is valued at cost using the first-in first-out (FIFO) method. This inventory consists principally of spare parts held for consumption. The cost of these spare parts is recorded as an expense at the time individual inventory items are withdrawn for use.

J. Capital Assets

Governmental funds: Capital outlays are recorded as expenditures on the governmental fund financial statements and as assets on the government-wide financial statements to the extent the City's capitalization threshold of \$5,000 is met. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively to 1980. The City depreciates property, plant, and equipment, using the straight-line method over their estimated useful lives at follows:

<u>Assets</u>	<u>Years</u>
Land improvements	15-20
Buildings and improvements:	
New construction	30-40
Improvements	15-20
Infrastructure	30-50
Machinery and equipment	5-10

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2003

Note 1. Summary of Significant Accounting Policies (Continued)

J. Capital Assets (Continued)

Proprietary Fund Types: Capital outlays of the proprietary funds are recorded as capital assets on both the fund basis and the government-wide basis. Capital assets are stated at cost or estimated original cost based on independent consultant studies, net of accumulated depreciation. Donated capital assets are recorded at their fair value at the date of receipt. Repairs and maintenance are charged to expense when incurred. When capital assets are sold or retired, the cost of the assets and the related accumulated depreciation are eliminated and a gain or loss is recognized. Depreciation has been provided over the estimated useful lives using the straight-line method. Depreciation rates are as follows:

Water and wastewater building and pumping, treatment, distribution, and gathering equipment	2% to 33%
Solid waste management system land improvements, buildings and equipment	2% to 33%
Airport facilities and improvements and related equipment	2% to 33%
Internal fleet services buildings and equipment	2% to 33%

The City follows the policy of capitalizing, during the period of construction, the net interest costs on funds borrowed to finance the construction of proprietary capital assets. During 2003, the enterprise funds incurred interest costs of \$3,136,696 of which \$180,420 was capitalized.

K. Deferred Revenue / Unearned Revenue

Deferred revenue in the General Fund consists primarily of property taxes and other receivables not collected within 45 days of year-end. Deferred revenue in the Special Revenue Funds and Capital Projects Funds represent primarily grant funds received or accrued but not expended for their restricted purposes and receivables not collected within 45 days of year end, respectively.

L. Vacation Pay Liability

City employees accumulate vacation time depending upon their length of service up to a total of 288 hours. All outstanding vacation time is payable upon termination of employment. The current portions are not recorded as liabilities in the governmental fund financial statements until they have matured as a result of employee resignations and retirements. In proprietary funds, both the expenses and the liabilities are recorded as benefits are earned. All vacation pay is accrued when incurred in the government-wide financial statements. Each operating fund is responsible for covering its share of vacation pay liability.

M. Interfund Transactions

During the course of normal business operations the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, or satisfy certain obligations. These transactions are generally reflected as transfers. Subsidies between funds are recorded as transfers.

N. Estimates

Management uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities and reported revenues, expenditures and expenses.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2003

Note 1. Summary of Significant Accounting Policies (Continued)

O. Net Assets / Fund Equity

Net Assets in government-wide and proprietary financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

In the fund financial statements, City funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 2. Cash and Investments

Deposits:

At June 30, 2003, the carrying value of the City's deposits with banks was \$(4,412,874) and the bank balance was \$951,774 all of which was covered by the Federal Depository Insurance Corporation (FDIC) or insured in accordance with the Virginia Security for Public Deposits Act (the "Act"). Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and loan institutions are required to collateralize 100% of deposits in excess of FDIC limits. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loans.

The carrying amount of deposits of the Lynchburg City Schools, a discretely presented component unit at June 30, 2003 was \$(421,274) and the bank balance was \$ 1,152,341.

The carrying amount of deposits of the City's other discretely presented component units was \$478,878 and the bank balance was \$539,806. Of the bank balance, \$245,136 was covered by Federal depository insurance and considered a category 1 deposit. An amount of \$294,670 was uninsured and uncollateralized at June 30, 2003 and considered a category 3 deposit.

Investments:

Statutes authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool.

The City's investments are categorized below to give an indication of the level of risk assumed by the entity at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its safekeeping agent in the City's name. Category 2 includes uninsured or unregistered investments for which the securities are held by the counterparty's trust department or safekeeping agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or safekeeping agent, but not in the City's name.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2003

Note 2. Cash and Investments

Investments: (Continued)

The City invests in an externally managed investment pool, LGIP, which is not SEC-registered. Pursuant to Sec. 2.1-234.7 of the *Code of Virginia*, the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at their regularly scheduled monthly meetings, and the fair value of the position in the LGIP is the same as the value of the pool shares.

At June 30, 2003, the City's investment balances were as follows:

	Category			Fair Value
	1	2	3	
Repurchase agreements	\$ 6,843,784	\$ -	\$ -	\$ 6,843,784
Investments not subject to categorization:				
Investment in State Treasurer's Local Government Investment Pool (LGIP)				41,777,951
Money market funds - Commonwealth Cash Reserve Fund (AIM)				5,835,539
				<u>\$ 54,457,274</u>

At June 30, 2003, the Lynchburg City Schools' investment balances were as follows:

	Fair Value
Investments not subject to categorization:	
Greater Lynchburg Community Trust Mutual Funds	\$ 66,116
Investment in State Treasurer's Local Government Investment Pool (LGIP)	9,859,638
	<u>\$ 9,925,754</u>

Reconciliation of deposits and investments to statement of net assets:	Primary Government	School Board Component Unit
Cash and deposits:		
Cash on hand	\$ 23,300	\$ 500
Deposits	(4,412,874)	(421,274)
Investments	54,457,274	9,925,754
	<u>\$ 50,067,700</u>	<u>\$ 9,504,980</u>
Statement of Net Assets		
Cash and cash equivalents and investments	\$ 43,246,478	\$ 9,429,226
Restricted cash and cash equivalents restricted for:		
Restricted for debt service	6,308,161	75,754
Restricted for performance bond	54,720	-
Restricted for self insurance	387,724	-
Fiduciary fund cash	70,617	-
	<u>\$ 50,067,700</u>	<u>\$ 9,504,980</u>

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2003

Note 3. Property Taxes

Property taxes are levied on a fiscal year basis on July 1, the assessment date, and become a lien as of that date. Supplemental property billings are levied in June to reflect construction in progress during the fiscal year. Personal property assessments are prorated for additional acquisitions of personal property throughout the year resulting in additional billings to taxpayers. Real estate taxes are payable in four quarterly installments on November 15, January 15, March 15, and May 15. Personal property taxes are payable on November 15, and additional billings are due February 15.

A penalty of 10% for late payment and interest at the rate of 10% is charged on unpaid balances. The City bills and collects its own property taxes.

Note 4. Interfund Receivables, Payables and Transfers

Interfund balances at June 30, 2003, were as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Funds:		
General	\$ 1,132,840	\$ -
Nonmajor Funds - Special Revenue:		
Community Development Block Grant Fund	-	385,661
Lynchburg Business Development Center Fund	-	30,000
Detention Home Fund	-	63,250
Comprehensive Services Act Fund	-	592,286
E-911 Fund	-	51,500
Home Investment Trust Fund	-	10,143
	<hr/>	<hr/>
Totals	<u>\$ 1,132,840</u>	<u>\$ 1,132,840</u>

Interfund receivables represent advances to special revenue funds to be repaid with future grant revenues.

Interfund transfer balances at June 30, 2003 were as follows:

	<u>To</u>	<u>From</u>
Major funds		
General	\$ 1,696,702	\$ 6,976,578
Nonmajor governmental funds	4,964,110	810,315
Major proprietary funds:		
Water	-	452,628
Sewer	-	806,668
Airport	577,933	25,560
Solid Waste	732,529	597,158
Internal Services	1,697,633	-
	<hr/>	<hr/>
Totals	<u>\$ 9,668,907</u>	<u>\$ 9,668,907</u>

Transfers between major funds and other nonmajor governmental funds were primarily to support capital projects and operation of funds.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2003

Note 5. Due From/To Primary Government and Component Units

Due from/to balances between the City and its component units at June 30, 2003, were as follows:

	Due From	Due To
Primary Government:		
General	\$ 15,936	\$ -
Special Revenue:		
Lynchburg Business Development Centre Fund	155,000	-
	<u>\$ 170,936</u>	<u>\$ -</u>
Component Units:		
Business Development Centre, Inc.	\$ -	\$ 155,000
Greater Lynchburg Transit Company	-	15,936
	<u>\$ -</u>	<u>\$ 170,936</u>

Note 6. Due From Other Governments

Amounts due from other governments at June 30, 2003, consisted of the following:

	Primary Government	Component Units
Unrestricted:		
Amounts due from surrounding counties - Detention Home	\$ 84,354	\$ -
Amounts due from Lynchburg Industrial Development Authority	200,000	-
Amounts due from state for highway grants	446,364	-
Amounts due from various federal and state grants	4,887,517	-
Other amounts due from other governments	213	-
Amounts due from various federal and state grants	-	1,747,492
Restricted:		
Amounts due from state for forfeited assets	20,612	-
Amounts due from members of Regional Sewage Treatment Plant	6,187,772	-
Amounts due from Federal Aviation Administration	60,507	-
Amounts due from various federal and state grants	789,990	-
Total	<u>\$ 12,677,329</u>	<u>\$ 1,747,492</u>

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2003

Note 6. Due From Other Governments (Continued)**Due from members of the Regional Sewage Treatment Plant**

The amounts due from members of the Regional Sewage Treatment Plant Agreement (Agreement) of June 6, 1974 represent amounts due from Amherst County, the Bedford County Public Service Authority and the Campbell County Utilities and Service Authority for their proportionate share (20%) of improvements to Joint-Use Facilities. These Joint-Use Facilities are defined as the City's waste water treatment plant and its immediately related treatment facilities used jointly by the City and one or more of the Counties in connection with the transmission or treatment of wastes made the subject of the Agreement. The cost of improvements are billed to each community and recorded as contributed capital when related projects are completed. Pursuant to Section VI (b) of the Agreement, each County shall have the option of paying its proportionate share of the cost of the project either in cash or on a deferred payment schedule coinciding with the period over which the City's bonds are amortized plus interest at the rate equivalent to the net interest cost to the City. The Counties have elected to pay their share of improvements coinciding with the City's. Future payments to be received are as follows:

	Gross Amount Receivable	Discount Amount	Net of Discount
Amount receivable within 1 year	\$ 646,744	\$ -	\$ 646,744
Amount receivable 1 to 5 years	2,887,147	340,876	2,546,271
Amount receivable beyond 5 years	4,627,909	1,633,152	2,994,757
	<u>\$ 8,161,800</u>	<u>\$ 1,974,028</u>	<u>\$ 6,187,772</u>

The discount rate used for notes receivable was the Treasury bill rate at June 30, 2003 of 4.40%. The gross amount receivable column includes principal and interest.

Note 7. Receivables

Receivables as of year end for the government's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Taxes	Other Taxes	Accounts	Inter- governmental	Other	Total
General	\$ 1,626,466	\$ 3,254,191	\$ 958,387	\$ 3,298,243	\$ 347,127	\$ 9,484,414
Water	-	-	920,015	-	42,641	962,656
Sewer	-	-	1,612,043	-	93,251	1,705,294
Airport	-	-	57,879	-	36,286	94,165
Solid Waste	-	-	601,923	-	116,419	718,342
Nonmajor Funds	-	-	-	1,932,551	5,381,211	7,313,762
	<u>\$ 1,626,466</u>	<u>\$ 3,254,191</u>	<u>\$ 4,150,247</u>	<u>\$ 5,230,794</u>	<u>\$ 6,016,935</u>	<u>\$ 20,278,633</u>

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2003

Note 8. Capital Assets

Primary Government

A summary of the changes in the City's capital assets for governmental activities is as follows:

	Restated Balances June 30, 2002	Transfers and Additions	Transfers and Retirements	Balances June 30, 2003
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 5,794,512	\$ 15,500	\$ -	\$ 5,810,012
Construction in progress	33,393,847	10,472,759	28,984,070	14,882,536
Total capital assets, not being depreciated	39,188,359	10,488,259	28,984,070	20,692,548
Capital assets, being depreciated:				
Land improvements	3,148,492	812,022	15,500	3,945,014
Buildings and improvements	119,613,056	11,381,193	69,810	130,924,439
Infrastructure	171,066,933	12,858,119	8,440	183,916,612
Machinery and equipment	19,211,184	3,233,552	1,086,870	21,357,866
Total capital assets, being depreciated	313,039,665	28,284,886	1,180,620	340,143,931
Less - accumulated depreciation for:				
Land improvements	1,171,889	200,208	-	1,372,097
Buildings and improvements	65,367,202	2,729,342	33,354	68,063,190
Infrastructure	59,632,573	5,347,748	3,025	64,977,296
Machinery and equipment	10,306,630	2,320,060	1,067,135	11,559,555
Total accumulated depreciation	136,478,294	10,597,358	1,103,514	145,972,138
Total capital assets, being depreciated	176,561,371	17,687,528	77,106	194,171,793
Governmental activities capital assets, net	\$ 215,749,730	\$ 28,175,787	\$ 29,061,176	\$ 214,864,341

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2003

Note 8. Capital Assets (Continued)

The gross cost and accumulated depreciation balances at June 30, 2002 were restated to record school buildings originally presented as an asset of the Lynchburg City Schools component unit, but have been determined to be titled to the City. The cost of assets as of June 30, 2002 were restated as follows:

	Balances June 30, 2002	Restatement		Restated Balances June 30, 2002
		Additions	Deletions	
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 4,761,888	\$ 1,032,624	\$ -	\$ 5,794,512
Construction in progress	32,989,143	404,704	-	33,393,847
Total capital assets, not being depreciated	37,751,031	1,437,328	-	39,188,359
Capital assets, being depreciated:				
Land Improvements	2,355,372	793,120	-	3,148,492
Buildings and improvements	84,652,020	34,968,554	7,518	119,613,056
Infrastructure	171,066,933	-	-	171,066,933
Machinery and equipment	19,211,184	-	-	19,211,184
Total capital assets, being depreciated, net	277,285,509	35,761,674	7,518	313,039,665
Governmental activities capital assets, net	<u>\$ 315,036,540</u>	<u>\$ 37,199,002</u>	<u>\$ 7,518</u>	<u>\$ 352,228,024</u>

Depreciation was charged to governmental functions as follows:

General government	\$ 414,873
Education	1,345,793
Judicial	142,046
Health and human services	132,872
Public Safety	1,341,677
Public Works	6,391,848
Community development	23,215
Cultural and recreational	398,240
	<u>\$ 10,190,564</u>

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2003

Note 8. Capital Assets (Continued)

A detail of the City's capital assets for business type activities is as follows:

	Balances June 30, 2002	Transfers and Additions	Transfers and Retirements	Balances June 30, 2003
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 5,350,210	\$ 20,000	\$ 196,314	\$ 5,173,896
Construction in progress	36,940,237	9,461,425	31,476,714	14,924,948
Total capital assets, not being depreciated	42,290,447	9,481,425	31,673,028	20,098,844
Capital assets, being depreciated:				
Land improvements	15,012,160	-	-	15,012,160
Buildings and improvements	32,143,893	3,573,175	-	35,717,068
Infrastructure	187,023,989	26,680,513	37,078	213,667,424
Machinery and equipment	16,412,041	1,364,925	1,648,293	16,128,673
Capitalized interest	5,155,705	196,958	-	5,352,663
Total capital assets, being depreciated	255,747,788	31,815,571	1,685,371	285,877,988
Less - accumulated depreciation for:				
Land improvements	9,949,334	523,965	-	10,473,299
Buildings and improvements	10,464,919	966,374	-	11,431,293
Infrastructure	47,132,864	4,612,971	33,227	51,712,608
Machinery and equipment	11,803,969	949,151	1,592,418	11,160,702
Capitalized interest	640,530	103,056	-	743,587
Total accumulated depreciation	79,991,616	7,155,517	1,625,645	85,521,489
Total capital assets, being depreciated, net	175,756,172	24,660,054	59,726	200,356,499
Business-type activities capital assets, net	\$ 218,046,619	\$ 34,141,479	\$ 31,732,754	\$ 220,455,343

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2003

Note 8. Capital Assets (Continued)

Component Units

Activity for the year ended June 30, 2003 for capital assets capitalized by the Schools and a detail of Greater Lynchburg Transit Company is summarized as follows:

<u>Lynchburg City Schools</u>	<u>Balances June 30, 2002</u>	<u>Transfers and Additions</u>	<u>Transfers and Retirements</u>	<u>Balances June 30, 2003</u>
Capital assets, not being depreciated:				
Land and improvements	\$ -	\$ -	\$ -	\$ -
Capital assets, being depreciated:				
Equipment	9,781,669	-	-	9,781,669
Equipment - Cafeteria	1,086,598	-	-	1,086,598
Total capital assets, being depreciated	10,868,267	-	-	10,868,267
Less - accumulated depreciation for:				
Equipment	4,689,186	420,464	-	5,109,650
Equipment - Cafeteria	412,796	109,346	-	522,142
Total accumulated depreciation	5,101,982	529,810	-	5,631,792
Total capital assets, being depreciated, net	5,766,285	(529,810)	-	5,236,475
Lynchburg City Schools capital assets, net	\$ 5,766,285	\$ (529,810)	\$ -	\$ 5,236,475

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2003

Note 8. Capital Assets (Continued)

The gross cost and accumulated depreciation balances for the Schools at June 30, 2002 were restated to reclassify school buildings originally presented as an asset of the Lynchburg City Schools component unit as an asset of the primary government. The cost of assets as of June 30, 2002 were restated as follows:

	Balances June 30, 2002	Restatement		Restated Balances June 30, 2002
		Additions	Deletions	
Capital assets, not being depreciated:				
Land and improvements	\$ 1,032,624	\$ -	\$ 1,032,624	\$ -
Capital assets, being depreciated:				
Buildings	34,968,554	-	34,968,554	-
Paving	793,120	-	793,120	-
Equipment	9,781,669	-	-	9,781,669
Equipment - Cafeteria	1,086,598	-	-	1,086,598
Totals, capital assets being depreciated	46,629,941	-	35,761,674	10,868,267
Total capital assets, net	\$ 47,662,565	\$ -	\$ 36,794,298	\$ 10,868,267

Greater Lynchburg Transit Company

Land, buildings and improvements	\$ 1,948,524
Machinery and Equipment	8,152,016
	10,100,540
Less accumulated depreciation	(5,061,853)
	\$ 5,038,687

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2003

Note 9. Debt

General Obligation Bonds:

Details of general obligation bonds of the City at June 30, 2003 are as follows:

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Governmental Activities		Business Type Activities
					Public Improvements	School Facilities	
Bond anticipation note							
Public Improvement BANS	4.50%	10/01/1999	2004	\$ 3,345,000	\$ 610,000	\$ -	\$ -
Serial bonds							
Virginia Public School Authority G.O. Bonds	4.90-6.35%	11/12/1992	2012	458,292	-	250,397	-
Public Improvement Bonds	5.20-5.80%	01/01/1993	2013	18,375,000	222,614	174,932	527,454
Virginia Resources Authority Public Improvement Bonds	4.50%	03/24/1994	2016	3,976,369	-	-	2,983,846
Virginia Public School Authority G.O. Bonds	6.25-6.75%	11/22/1994	2014	2,100,362	-	1,368,388	-
Public Improvement Bonds	5.35-6.50%	01/01/1995	2015	9,800,000	295,214	825,000	349,787
Taxable Refunding Bonds	5.40-6.75%	01/01/1996	2014	7,150,000	-	4,910,000	-
Public Improvement Bonds	4.30-4.90%	02/01/1996	2016	5,000,000	3,144,700	-	105,300
Public Improvement Bonds	4.60-5.40%	02/15/1997	2017	16,000,000	3,710,000	5,040,000	2,730,000
Public Improvement Bonds	4.00-5.00%	04/01/1998	2018	33,855,000	8,901,698	7,208,003	13,750,298
Public Improvement Bonds	4.25-5.00%	06/01/1999	2019	17,805,000	6,524,556	2,280,119	5,805,325
Public Improvement Bonds	5.25-5.75%	07/18/2000	2030	14,405,000	5,681,430	2,468,570	5,285,000
Public Improvement Bonds	4.0-4.875%	08/16/2001	2031	14,620,000	-	2,009,491	12,350,509
Virginia Public School Authority G.O. Bonds	3.1-5.35%	11/15/2001	2021	3,473,329	-	3,315,278	-
Virginia Public School Authority G.O. Bonds	2.35-5.1%	11/07/2002	2023	6,513,732	-	6,513,732	-
Public Improvement Bonds	2-5%	02/01/2003	2014	23,670,000	7,588,034	898,963	15,183,003
Public Improvement Bonds	2.5-4.625%	02/01/2003	2033	16,745,000	9,265,000	2,410,000	5,070,000
					<u>\$ 45,943,246</u>	<u>\$ 39,672,873</u>	<u>\$ 64,140,522</u>

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2003

Note 9. Debt (Continued)

Bonds issued between 1992 and 2003 are callable subject to a maximum premium of 2%.

Authorized and unissued general obligation public improvement bonds and public utility revenue bonds amounted to \$25,230,000 and \$5,888,256 respectively, at June 30, 2003.

In prior years, the City has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the City's Statement of Net Assets. As of June 30, 2003, \$4,410,000 of outstanding bonds are considered defeased and are not included in the City's financial statements.

The Commonwealth imposes a legal limit of 10% of assessed valuation on the amount of general obligation borrowings that may be issued by the City. As of June 30, 2003, the City's aggregate general obligation indebtedness was \$151,644,375 less than the state limit. There are no overlapping or underlying tax jurisdictions.

Revenue Debt

Details of revenue debt of the City's Enterprise Funds at June 30, 2003 are as follows:

	Interest Rates	Date Issued	Maturity Date	Original Issue	Enterprise Funds
Virginia Resources Authority:					
Public Utility Revenue Bonds	0%	03/28/1995	2016	\$ 6,571,000	\$ 4,208,755
Public Utility Revenue Bonds	0%	08/10/1995	2017	10,000,000	7,194,445
Public Utility Revenue Bonds	0%	06/27/1996	2016	8,000,000	5,569,206
Public Utility Revenue Bonds	3.00%	07/17/1997	2019	14,108,460	12,675,283
Public Utility Revenue Bonds	0%	07/17/1997	2019	7,591,540	6,034,301
Public Utility Revenue Bonds	0%	08/01/1998	2019	6,203,000	5,228,194
Public Utility Revenue Bonds	3.00%	05/26/1999	2019	2,591,540	2,220,900
Public Utility Revenue Bonds	0%	10/01/1999	2021	5,300,000	5,021,053
Public Utility Revenue Bonds	0%	02/15/2001	2020	735,000	676,973
Public Utility Revenue Bonds	3.50%	06/08/2001	2021	2,835,000	2,765,362
Public Utility Revenue Bonds	0%	11/06/2001	2022	1,413,613	1,378,275
Total Revenue Debt					<u>\$ 52,972,747</u>

The revenue bonds have been issued in accordance with the terms of an indenture agreement with the Virginia Resources Authority (VRA) of the Commonwealth of Virginia. The indenture agreement requires the City to pledge its Sewer Fund revenues as collateral for the revenue bonds and to maintain debt coverage in the Sewer Fund equal to at least 1.15 of all debt service payments. As shown below, the debt coverage ratio for the year ended June 30, 2003 was 1.205.

Sewer Fund Operating income	\$ 4,139,855
Plus depreciation and amortization	3,312,342
Interest income (Interest from Regional Sewage Treatment Plant members shown below)	55,615
Governmental grants and miscellaneous income	178,541
Payments from Regional Sewage Treatment Plant members	785,015
Net revenue per indenture	<u>\$ 8,471,368</u>
Net principal and interest payments*	<u>\$ 7,038,909</u>
Debt coverage	<u>1.204</u>

*Excludes principal and interest payments on line of credit

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2003

Note 9. Debt (Continued)

Primary Government

The following is a summary of changes in general obligation bonds payable, revenue bonds payable, and other long-term liabilities for the year ended June 30, 2003:

	Balance July 1, 2002	Additions	Deletions	Balance June 30, 2003	Current Portion
Governmental Activities					
Bond anticipation notes payable	\$ 9,290,000	\$ -	\$ 8,680,000	\$ 610,000	\$ 610,000
General obligation bonds payable	71,900,802	26,675,729	13,570,412	85,006,119	5,790,284
State literary fund loans payable	283,012	-	58,275	224,737	58,275
Adjust for deferred amounts					
Issuance premiums	-	657,865	-	657,865	-
On refunding	-	(371,685)	-	(371,685)	-
Total bonds and notes payable	81,473,814	26,961,909	22,308,687	86,127,036	6,458,559
Workers' compensation payable	300,406	280,753	-	581,159	105,466
Vacation pay liability	3,513,352	107,538	-	3,620,890	430,866
Capitalized lease obligations	2,396,609	-	209,980	2,186,629	222,475
	<u>\$ 87,684,181</u>	<u>\$ 27,350,200</u>	<u>\$ 22,518,667</u>	<u>\$ 92,515,714</u>	<u>\$ 7,217,366</u>
Business Type Activities					
General obligation bonds payable	\$ 63,498,966	\$ 20,253,003	\$ 19,611,447	\$ 64,140,522	\$ 4,422,227
Public utility revenue bonds payable	56,096,351	-	3,123,604	52,972,747	3,222,686
Adjust for deferred amounts					
Issuance discounts	(664,921)	-	(222,335)	(442,586)	-
Issuance premiums	-	492,267	18,647	473,620	-
On refunding	-	(877,765)	(44,485)	(833,280)	-
Total bonds and notes payable	118,930,396	19,867,505	22,486,878	116,311,023	7,644,913
Vacation pay liability	322,681	63,948	-	386,629	-
Landfill closure liability - open landfill	2,200,615	364,820	-	2,565,435	-
Landfill closure liability - closed landfill	199,535	-	119,718	79,817	79,817
	<u>\$ 121,653,227</u>	<u>\$ 20,296,273</u>	<u>\$ 22,606,596</u>	<u>\$ 119,342,904</u>	<u>\$ 7,724,730</u>

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2003

Note 9. Debt (Continued)

Debt Service to Maturity: Following is a summary of debt service to maturity for long-term debt:

Year ending June 30	Governmental Obligation		State Literary Fund Loans	
	Principal	Interest	Principal	Interest
2004	\$ 6,400,284	\$ 4,005,620	\$ 58,275	\$ 8,186
2005	6,207,653	3,701,324	39,525	6,248
2006	6,032,136	3,459,886	39,525	4,870
2007	6,044,187	3,216,123	19,000	3,496
2008	5,813,638	2,975,852	19,000	2,736
2009-2013	27,193,764	10,769,180	49,412	3,651
2014-2018	19,604,081	4,578,434	-	-
2019-2023	7,020,376	1,058,441	-	-
2024-2028	840,000	226,925	-	-
2029-2033	460,000	66,505	-	-
Total	<u>\$ 85,616,119</u>	<u>\$ 34,058,290</u>	<u>\$ 224,737</u>	<u>\$ 29,187</u>

Year ending June 30	General Obligation Bonds							
	Enterprise Funds							
	Sewer Fund		Water Fund		Solid Waste Management Fund		Airport Fund	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 1,828,045	\$ 1,368,721	\$ 1,226,503	\$ 944,318	\$ 1,052,949	\$ 314,135	\$ 314,730	\$ 122,629
2005	2,343,176	1,298,480	1,492,883	901,028	1,157,612	287,927	331,184	105,961
2006	2,245,924	1,219,655	1,455,360	852,109	1,013,552	251,809	318,596	98,619
2007	2,232,619	1,141,938	1,434,291	803,460	995,824	221,377	312,370	88,126
2008	2,079,097	1,065,218	1,358,594	755,517	975,052	190,205	277,397	78,416
2009-2013	8,794,329	3,983,560	5,491,944	2,916,446	2,721,492	426,524	1,049,140	220,533
2014-2018	5,840,820	2,208,540	3,819,315	1,811,465	531,756	33,540	378,129	43,191
2019-2023	2,154,345	1,220,502	1,855,656	1,088,331	-	-	32,838	821
2024-2028	2,149,605	702,050	1,905,395	630,433	-	-	-	-
2029-2033	1,617,255	170,152	1,352,745	147,260	-	-	-	-
Total	<u>\$ 31,285,215</u>	<u>\$ 14,378,816</u>	<u>\$ 21,392,686</u>	<u>\$ 10,850,367</u>	<u>\$ 8,448,237</u>	<u>\$ 1,725,517</u>	<u>\$ 3,014,384</u>	<u>\$ 758,296</u>

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2003

Note 9. Debt (Continued)

Year ending June 30	Revenue Bonds	
	Principal	Interest
2004	\$ 3,222,686	\$ 537,414
2005	3,248,108	511,992
2006	3,274,319	485,781
2007	3,301,343	458,757
2008	3,329,205	430,895
2009-2013	17,095,182	1,705,322
2014-2018	15,464,038	866,981
2019-2023	4,037,866	87,108
Total	\$ 52,972,747	\$ 5,084,250

Notes payable, bank

In July 2002, the City issued a general obligation note to SunTrust Bank and concurrently entered into a financing agreement with the Bank. The agreement provides for borrowings of up to \$15,000,000 to provide interim financing for qualifying capital improvements. Interest is equal to the tax-exempt note rate as defined in the agreement, plus 0.45%, up to a maximum of 4%. All outstanding amounts are due at final maturity on August 30, 2007. There are no amounts outstanding at June 30, 2003.

2002 VPSA Bond Issue

On November 7, 2002, the City issued \$6,513,732 of General Obligation Virginia Public Schools Authority Bonds (VPSA) for the Linkhorne Middle School Renovation Project. Bond proceeds in the amount of \$6,768,591 plus a \$731,409 VPSA loan subsidy were used to pay off interim-financing for a bond anticipation note in the amount of \$7,500,000.

Current year defeasance of debt

On February 19, 2003 the City issued \$23,670,000 of General Obligation Refunding Bonds. These proceeds were used to current refund (net of costs related to financing) \$18,410,000 of outstanding April 1, 1993 General Obligation Bonds, and \$4,950,000 January 1, 1994 General Obligation Bonds. Of the refunded debt, \$8,375,849 was Governmental Fund supported debt and \$14,984,152 was Enterprise Fund supported debt. Proceeds of \$24,400,346 were used to purchase U.S. Treasury Bills with a maturity date of April 1, 2003, in an amount sufficient to redeem the refunded bonds on that date.

The City refunded the 1993 and 1994 Series bonds to reduce its total debt service payments over the next 11 years by a cumulative total of approximately \$1,696,738 and to obtain an economic gain (the difference between the present values of the debt service payments on the old and new debt) of \$1,557,922.

The current refunding of the enterprise debt resulted in a difference (loss) between the reacquisition price and the net carrying amount of the old debt of \$833,280. This difference is being amortized over the life of the refunding issue.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2003

Note 9. Debt (Continued)

Component Unit – Lynchburg City Schools

The following is a summary of other long-term liabilities for the year ended June 30, 2003:

	Balance July 1, 2002	Additions	Deletions	Balance June 30, 2003	Current Portion
Vacation pay liability	\$ 535,778	\$ -	103,412	\$ 432,366	\$ -
Capitalized lease obligations	<u>2,047,605</u>	<u>1,000,000</u>	<u>914,860</u>	<u>2,132,745</u>	<u>753,595</u>
	<u>\$ 2,583,383</u>	<u>\$ 1,000,000</u>	<u>\$ 1,018,272</u>	<u>\$ 2,565,111</u>	<u>\$ 753,595</u>

Note 10. Landfill Closure and Postclosure Care Costs

The City closed its Tyreeana I landfill site on October 8, 1993. In accordance with federal and state laws, the City placed a final cover on this site and will perform certain maintenance and monitoring functions at this site for ten years after closure. The cumulative amount of estimated closure and post closure care costs to date for this site is \$3,903,549. As of June 30, 2003, total payments to date are \$3,823,732 leaving estimated closing costs of \$79,817. This amount is included in the landfill closure and postclosure liability in the Solid Waste Management Enterprise Fund.

The City's Tyreeanna II landfill site began accepting waste on October 9, 1993. State and federal laws also require the City to place a final cover on this site when it stops accepting waste and to perform maintenance and monitoring functions at this site for thirty years after closure. Although closure and postclosure care costs are paid only near or after the date the landfill stops accepting waste, the City reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. Estimated closure and postclosure care costs at June 30, 2003 of \$2,565,435 for the Tyreeanna II landfill site is based upon the total estimated closure and postclosure care costs of \$ 5,723,284 times 44.8 percent of the landfill used to date. The City will recognize the remaining estimated cost of closure and postclosure care of \$3,157,849 as the remaining estimated capacity is filled. The City expects to close the landfill in 2014. Actual cost may be higher due to inflation, changes in technology or changes in regulations. The total closure/post closure cost estimate increased by \$49,136 because actual measurements from the landfill were available for the calculation at June 30, 2003, replacing the estimated measurements used in prior years.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2003

Note 11. Fund Equity Balances

Reserved Fund Balance: Fund balance reserves are used to indicate the portion of fund balance that is not available for appropriation or is legally segregated for a specific future use.

Designated Fund Balance: Designations of fund balance are established to indicate tentative plans for financial resource utilization in a future period. Designations of fund balance by purpose are as follows:

	General Fund	Special Revenue Funds	Capital Projects Funds
Self insurance and other insurance matters	\$ 2,259,590	\$ -	\$ -
Health insurance	195,000	-	-
Emerging issues	214,602	-	-
Budget carryforward	222,010	-	-
Completion of other approved specified projects and activities	-	1,300,727	14,064,540
Data processing	301,426	-	-
Court facilities	206,392	-	-
Criminal Justice Academy	190,252	-	-
Recreation	104,074	-	-
Donations	115,423	-	-
	<u>\$ 3,808,769</u>	<u>\$ 1,300,727</u>	<u>\$ 14,064,540</u>

Deficit Fund Balance: At June 30, 2003, the following funds had a deficit fund balance:

Community Development Block Grant Fund	58,189
Comprehensive Service Act Fund	395,941
Home Investment Trust Special Revenue Fund	11,863

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2003

Note 12. Employee Benefit Plans

Defined Benefits Pension Plan:

Plan Description: The City contributes to the Virginia Retirement System ("VRS"), an agent and cost-sharing multiple-employer defined pension plan administered by the Virginia Retirement System ("the System"). In addition, professional and non-professional employees of the schools are covered by the VRS. Professional employees participate in a VRS statewide teacher cost sharing pool, and non-professional employees participate as a separate group in the agency multiple-employer retirement system.

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 for participating law enforcement officers and firefighters) and at age 50 with 30 years of service for participating employees (age 50 with 25 years for participating law enforcement officers and firefighters). Employees who retire with a reduced benefit at age 55 (age 50 for participating law enforcement officers and firefighters) with at least five years of credited service are entitled to an annual retirement benefit payable monthly for life in an amount equal to 1.7 percent of their average final salary ("AFS") for each year of credited service. An optional reduced retirement benefit is available to members of VRS as early as age 50 with 10 years of credited service. In addition, retirees qualify for annual cost-of-living increases beginning in their second year of retirement. AFS is defined as the highest consecutive 36 months of salary. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. Participating law enforcement officers and firefighters may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits.

Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the State legislature. The system issues a publicly available Comprehensive Annual Financial Report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing the System at P.O. Box 2500, Richmond, Virginia 23218-2500.

Funding Policy: Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their annual salary to the VRS. The employer has assumed this 5% member contribution. In addition, the City and the Schools are required to contribute the remaining amounts necessary to fund their participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The City's contribution rate for the fiscal year ended 2003 was 15.25% of annual covered payroll. The Schools' contribution rates for the fiscal year ended 2003 were 8.77% for professional and 8.00% for non-professional employees. Both the City's and the Schools' contribution rates include the employee's share of 5% paid by the employer.

Annual Pension Cost: For 2003, the City's and Schools' annual pension costs of \$6,316,504 and \$3,824,781 respectively, were equal to their required and actual contributions. The required contributions were determined as part of the June 30, 2002 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included: (a) 8% investment rate of return; (b) projected salary increases of 4.25% and 6.10% per year (depending on the employee's service and classification (general employee or uniformed officer), and (c) 3% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3%. The actuarial value of the City's and Schools' assets is equal to the modified market value of assets. This method was determined using techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The City's and Schools' unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis within a period of 27 years or less.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2003

Note 12. Employee Benefit Plans (Continued)

Trend Information for the City of Lynchburg

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2003	\$ 6,316,504	100%	None
June 30, 2002	6,219,909	100%	None
June 30, 2001	6,251,208	100%	None

Trend Information for the Lynchburg City Schools

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2003	\$ 3,824,781	100%	None
June 30, 2002	3,663,580	100%	None
June 30, 2001	4,766,388	100%	None

Post Retirement Health Care Benefits:

In addition to providing pension benefits, City policy allows the City to provide certain health care benefits to retired full-time employees. Substantially all of the City's employees may become eligible for these benefits if they reach normal retirement age while working for the City. At June 30, 2003, there were 458 employees eligible to receive these benefits. The cost of providing these benefits is recognized as paid and was approximately \$1,374,193 for 2003.

Note 13. Deferred Compensation Plan

The City offers an approved deferred compensation plan (the "Plan") pursuant to Section 457 of the Internal Revenue Code. All City employees are eligible to participate and may defer 25% of their gross income up to a maximum of \$12,000 per year. The City contributes \$5 per pay period for eligible employees. The compensation deferred is not available to employees until termination, retirement, death or an unforeseeable emergency.

Transactions related to the Plan for the year ended June 30, 2003 are as follows:

Balance, July 1, at market	\$ 10,136,332
Employee contributions	999,466
City contribution	88,280
Investment earnings, net of fees	144,428
Employee withdrawals	<u>(923,790)</u>
Balance, June 30, at market	<u>\$ 10,444,716</u>

In accordance with GAAP, these amounts are no longer recorded as an Agency Fund of the City.

Lynchburg City Schools offers a 403(b) plan for selected employees (full-time, biweekly paid, and classified). The Schools contributes \$5 per pay period. Funds are in separate individual accounts.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2003

Note 14. Related Party Transactions

Lynchburg Redevelopment and Housing Authority:

During the year ended June 30, 2003, the City provided \$288,391 to the Lynchburg Redevelopment and Housing Authority ("LRHA") for specific projects from the Community Development Block Grant fund (reported in Special Revenue Funds).

Note 15. Leases

Lessee:

The City leases certain equipment under operating lease agreements and certain equipment and vehicles under noncancellable capital lease agreements. For governmental funds the net present value of obligations under capital lease agreements of \$2,186,629 is included in the government-wide statements.

Operating leases have original terms from one month to 60 months and in certain instances capital leases allow cancellation if funds are not appropriated for each year's payments.

At June 30, 2003, future minimum lease payments due under capital and operating leases with initial or remaining noncancellable lease terms in excess of one year are as follows:

Fiscal Year	Capital Leases		Operating Leases	
	Governmental Obligation	Component Unit	Governmental Obligation	Component Unit
2004	\$ 344,397	\$ 814,764	\$ 270,767	\$ 85,289
2005	344,397	612,992	105,816	50,133
2006	344,397	466,007	95,767	39,789
2007	344,397	305,517	41,309	-
2008	344,397	53,814	39,960	-
2009-2013	1,033,189	-	199,800	-
2014-2018	-	-	199,800	-
2019-2021	-	-	119,880	-
Total minimum lease payments	2,755,174	2,253,094	\$ 1,073,099	\$ 175,211
Less amount representing interest	568,545	120,349		
Present value of net minimum lease payments	<u>\$ 2,186,629</u>	<u>\$ 2,132,745</u>		

For the year ended June 30, 2003, the City incurred rental expenditures of \$623,420 and \$0 in the General Fund and Special Revenue Funds, respectively, and rental expense of \$1,021 in the Enterprise Fund. For the year ended June 30, 2003 the Schools incurred rental expenditures of \$135,112 under operating leases.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2003

Note 15. Leases (Continued)

Lessor:

The City is the lessor of certain airport facilities and other buildings under various operating leases for terms ranging from one to nine years.

Future minimum lease payments to be received under noncancellable operating leases as of June 30, 2003 are as follows:

<u>Year ending June 30</u>	
2004	\$ 340,078
2005	253,863
2006	257,737
2007	239,400
2008	162,364
2009-2012	<u>494,460</u>
Total future minimum rentals	<u><u>\$ 1,747,902</u></u>

The amounts above do not include contingent rentals, which may be received under certain leases based on usage and sales. Rental income for the year ended June 30, 2003, approximated \$1,385,199 including \$193,080 in contingent rentals.

Note 16. Risk Management

The Risk Management Programs of the City are as follows:

Worker's Compensation: The City is self-insured for worker's compensation claims. All settled claims are paid through the General Fund. The liability for worker's compensation claims, including an estimate of incurred but not reported claims based on prior experience, to be paid in the next fiscal year and in future years is reflected in the statement of net assets. Total claims paid for the year ended June 30, 2003 amounted to approximately \$559,071.

General Liability and Other: The City is self-insured for general liability and automobile liability claims and purchases insurance coverage for risks related to property, boiler and machinery, surety bonds, and airport liability. City property is insured up to a limit of \$257,095,129 per occurrence. Other liability policies provide up to \$60,000,000 coverage in the aggregate. Police professional liability and public officials' liability claims with a \$250,000 deductible per claim are covered through a policy with the States Self Insurance Risk Group. Total premiums for purchased coverage for the year ended June 30, 2003 were approximately \$428,172. The City has designated a portion of its fund balance in the General Fund to fund future general liability claims. City management believes any incurred but not reported claims at June 30, 2003 would be insignificant.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2003

Note 16. Risk Management (Continued)

Healthcare: The City's professionally administered self-insurance program provides healthcare coverage for employees and retirees of the City on a cost-plus basis. Dependents of employees and retirees are also covered by the program provided they pay a premium to the City. Under the program, the City is obligated for claims payments and administrative costs. A stop loss insurance contract executed with an insurance carrier covers claims in excess of \$150,000 per covered individual per contract year. Total claims settlements did not exceed coverage for the last three years. For the years ended June 30, 2003 and 2002, total claims expense of approximately \$5,000,821 and \$5,738,877 respectively, which did not exceed the stop loss provisions, was incurred. Administrative fees and stop loss premiums for the years ended June 30, 2003 and 2002 totaled approximately \$453,346 and \$489,321 respectively. Estimated incurred but not reported claims at June 30, 2003 and 2002 based on prior experience, totaled \$254,652 and \$532,415 respectively and has been funded by the City.

Changes in aggregate liabilities were as follows:

	<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability</u>	<u>Current Year Claims and Reserves</u>	<u>Claim Payments</u>	<u>End of Fiscal Year Liability</u>
Workers Compensation	2002	306,962	853,101	552,695	607,368
	2003	607,368	888,985	559,071	937,282
General/Automotive Liability	2002	13,889	141,392	126,392	28,889
	2003	28,889	251,575	220,464	60,000
Healthcare	2002	450,000	5,821,292	5,738,877	532,415
	2003	532,415	4,723,058	5,000,821	254,652

General/Automotive and Healthcare are considered current liabilities and are included in accounts payable and accrued liabilities in the Statement of Net Assets. Workers Compensation breakdown between current and noncurrent is shown in Note 9.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2003

Note 17. Joint Venture

In April 1996, the City entered into an intergovernmental agreement with the Counties of Amherst and Bedford and the City of Bedford for the construction, financing, equipping and operating of a Regional Radio Communication System. The agreement provides for the creation of the Central Virginia Regional Radio Communications Board, which is responsible for overseeing the management, operation and administration of the project. The project was financed by the issuance of lease revenue bonds by the Industrial Development Authority of Amherst County in the amount of \$9,931,000 with interest at 5.72%, and the leasing of the project to the participating jurisdictions.. Each participating jurisdiction maintains a leasehold interest in the project and shares costs of operation and maintenance equal to the jurisdiction's payment percentage as defined in the agreement. The City's participating interest is 33.10%. Future minimum lease payments are included in the government-wide financial statements in the following amounts:

<u>Fiscal Year</u>	
2004	\$ 222,770
2005	235,382
2006	249,038
2007	263,488
2008	278,775
2009-2011	937,176

Separate financial statements for this joint venture are not available.

Note 18. Commitments and Contingencies

Combined Sewer Overflow

In October 1989, the City completed its update of the combined sewer overflow ("CSO") segment of the 1978 study regarding system inflow/infiltration. The purpose of this study update was to provide a cost-effective plan for CSO control. After detailed evaluation of a wide variety of control alternatives, this study update/plan concluded that sewer separation is the most cost-effective control option. Updated estimates performed in 2000 indicate that the total remaining cost of CSO control, including related work such as sewer replacement/overhaul and street paving will total approximately \$255,000,000 in 2003 dollars. On August 19, 1994, the Virginia Department of Environmental Quality ("VDEQ") issued the City's sewage discharge permit and consent special order continuing the terms and conditions that will govern implementation of the City's CSO control plan. The permit requires the City to implement the CSO control plan and to undertake certain combined sewer management practices designed to minimize CSO discharge until the sewer system is completely separated. The order establishes a compliance schedule and project priority for implementation of the CSO control plan.

The compliance schedule does not contain fixed dates for implementing the CSO control plan, but rather provides for implementation based on criteria reflecting the limits of the City's financial capability. The Special Order requires the City to maintain a sewer operating fund debt coverage ratio within a range of 1.1 to 1.5 and reserve funds to equal no more than 25 percent of the subsequent years' budgeted operating expenditures. The City is currently implementing the CSO control plan in accordance with the requirements of its permit and consent order. Further, the City is required by the consent order to submit annual reports, including independent rate consultant reports, to VDEQ on the City's compliance with the order and its progress with CSO control plan implementation.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2003

Note 18. Commitments and Contingencies (Continued)

Construction and Related Commitments

At June 30, 2003, the City had outstanding commitments under various construction contracts totaling approximately \$18,683,314.

Future Lease

In December 2001, with an addendum in May 2003, the City entered into a lease agreement to lease a building at 822 Commerce Street, Lynchburg, Virginia. The lease period begins August 29, 2003, and expires December 31, 2023. The lease amount was originally going to be \$491,632 per year until November 30, 2003. After that the lease amount was to be \$652,000 per year. At the date of the audit report the lease was being amended. Due to a delay in getting the certificate of occupancy and being able to obtain a more favorable interest rate, the rent payments are being reduced to \$472,675 per year starting December 2003 until the end of the lease period.

Loan Commitment

The City signed a loan dated May 28, 2003, with the U.S. Department of Housing and Urban Development (HUD) with a limit of \$3,200,000. These guaranteed loan funds will be used to make a loan to the "Bluffwalk" project, a multi-use hospitality complex that is part of Lynchburg's downtown revitalization program. The City's collateral for this loan is the future HUD Community Development Block Grant monies that the City receives on an annual basis.

Grant Programs

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as to being appropriate expenditures under terms of the grants. Such audits could lead to reimbursement to the grantor agencies. City management believes disallowances, if any, would not be material to the financial position of the City at June 30, 2003.

School Project

In March 2003, the City signed a leasing agreement with a private developer for the renovation of E.C. Glass High School. This arrangement will allow for the use of certain tax credits. The renovation is estimated to cost approximately \$28,000,000. The permanent financing will be through a combination of state literary loans, general obligation bonds and use of tax credits.

Note 19. Subsequent Events

On September, 2003 the City closed on a \$2,800,000, 20 year, interest free loan from the Virginia Water Facilities Revolving Fund. The proceeds from the loan will pay for upcoming projects in the City's combined sewer overflow program.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2003

Note 20. Adjustments to Beginning Net Assets

The Lynchburg City Schools' land, buildings and infrastructure were moved from the component unit to the primary government to properly account for assets related to general obligation debt of the primary government. Also, the City determined that School Capital Projects Fund should be accounted for in the Capital Projects Funds, therefore, this fund was moved from the Lynchburg City Schools Funds.

Entity-wide adjustments

	Governmental Activities	Component Unit School Assets
Beginning net assets, unadjusted	\$ 153,928,907	\$ 12,879,714
Move school capital assets	3,591,066	(3,591,066)
Reclass School Capital Projects	2,505,460	(2,505,460)
Capital asset restatements	520,632	-
To recognize deferred grants for the Comprehensive Services Act Fund	374,295	-
Beginning net assets, adjusted	<u>\$ 160,920,360</u>	<u>\$ 6,783,188</u>

Fund financial adjustments

	Other Governmental Funds	Component Unit School Assets
Beginning fund balance, unadjusted	\$ 2,526,195	\$ 5,105,745
Reclass School Capital Projects	<u>2,505,460</u>	<u>(2,505,460)</u>
Beginning fund balance, adjusted	<u>\$ 5,031,655</u>	<u>\$ 2,600,285</u>

CITY OF LYNCHBURG, VIRGINIA

Required Supplemental Information

Schedule of Funding Progress for Defined Benefit Pension Plan

As of June 30, 2003

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
A. City of Lynchburg						
June 30, 2002	\$ 150,775,982	\$ 176,068,222	\$ 25,292,240	85.63 %	\$ 40,610,667	62.28 %
June 30, 2001	147,024,102	162,321,403	15,297,301	90.58	\$ 39,469,110	38.76
June 30, 2000	134,003,439	145,588,951	11,585,512	92.04	36,959,528	31.35
B. Lynchburg City Schools Non-professional Employees:						
June 30, 2002	\$ 8,194,891	\$ 7,880,342	\$ (314,549)	103.99 %	\$ 3,233,028	(9.73) %
June 30, 2001	8,043,718	7,330,932	(712,786)	109.72	2,986,147	(23.87)
June 30, 2000	7,442,286	6,669,864	(772,422)	111.58	2,554,230	(30.24)

Other Supplemental Information

CITY OF LYNCHBURG, VIRGINIA

Nonmajor Governmental Funds

Nonmajor governmental funds consist of special revenue and capital projects funds.

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. Each fund is established on a functional basis and may include one or more grants or other funding sources.

Funds in this category include:

- City Federal/State Aid Projects Fund – Accounts for the City’s various federal and state grants for such purposes as building projects, certain social service and community development programs, and public safety.
- Community Development Block Grant Fund – Accounts for revenues received from the Department of Housing and Urban Development which are used for various development projects to accomplish the goals of the block grant program.
- Title XX Grant Fund – Accounts for federal and state grants as well as local contributions received for adult day care facilities.
- Museum System Fund – Accounts for revenues received in support of the City’s various museums.
- Lynchburg Business Development Centre Fund – Accounts for revenues received to support a local business incubator and for monies received from the Economic Development Administration for a revolving loan fund and certain other assistance.
- Detention Home Fund – Accounts for revenues received and expenditures made to support the operations of the City’s Juvenile Detention Home.
- Law Library Fund – Accounts for fees received to support the operation of the Law Library.
- Recycling Program Fund – Accounts for revenues received from the City’s Drop-off Recycling Program.
- Forfeited Assets Fund – Accounts for revenues received from the sale of confiscated assets which are related to illegal drug sales and are used for law enforcement expenditures for drug related activities.
- Lynchburg Expressway Appearance Fund – Accounts for the revenues and expenditures associated with beautification of the Lynchburg Expressway Area.
- Comprehensive Services Act Fund – Accounts for revenues received and expenditures made to support the Comprehensive Services Act for At-Risk Youth and Families adopted by the Virginia General Assembly.
- E-911 Fund - Accounts for revenues received to support the operations and capital expenditures of the City's E-911 system.

(Continued)

CITY OF LYNCHBURG, VIRGINIA

Nonmajor Governmental Funds

Funds in this category include: (continued)

- Home Investment Trust Fund – Accounts for revenues received from the Department of Housing and Urban Development for support of affordable housing needs in the City.
- Central Virginia Regional Radio Board Fund – Accounts for revenues received to support the operations and capital expenditure of the Central Virginia Radio Board.
- Partners In Emergency Response Fund – Accounts for revenues received to support the Occupational Safety Health Administration (OSHA) requirement for rescue in confined places.
- Technology Fund – Accounts for revenues received to support the acquisition of computer equipment and maintaining network equipment, servers, and the A/S 400.

Capital Projects Funds account for all resources used for the acquisition or construction of capital facilities except those financed by Enterprise Funds and federal and state grants.

- City Capital Projects Fund - Accounts for budgeted capital projects approved by City Council. The major source of this fund's resources is bond proceeds.
- Highway Projects Grant Fund – Accounts for federal and state grants received for various highway projects.
- School Capital Projects Fund - Accounts for budgeted capital projects approved by the Lynchburg City Schools related to educational activities.

CITY OF LYNCHBURG, VIRGINIA

**Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2003**

	Special Revenue Funds	Capital Project Funds	Total Nonmajor Governmental Funds
Assets			
Cash and cash equivalents	\$ 3,434,457	\$ 6,526,588	\$ 9,961,045
Receivables:			
Other	495,030	34,599	529,629
Due from component units	155,000	-	155,000
Due from other governments	1,694,453	646,364	2,340,817
Other assets	4,432	-	4,432
Total assets	\$ 5,783,372	\$ 7,207,551	\$ 12,990,923
Liabilities and fund balances			
Liabilities:			
Accounts payable	\$ 904,026	\$ 1,137,913	\$ 2,041,939
Accrued liabilities	84,794	-	84,794
Retainage payable	1,420	379,489	380,909
Due to other governments	28,004	-	28,004
Due to other funds	1,132,840	-	1,132,840
Deferred revenue	344,303	233,769	578,072
Total liabilities	<u>2,495,387</u>	<u>1,751,171</u>	<u>4,246,558</u>
Fund balances:			
Reserved for:			
Encumbrances	268,424	2,271,217	2,539,641
Unreserved:			
Designated	1,300,727	14,064,540	15,365,267
Undesignated	1,718,834	(10,879,377)	(9,160,543)
Total fund balances	<u>3,287,985</u>	<u>5,456,380</u>	<u>8,744,365</u>
Total liabilities and fund balances	\$ 5,783,372	\$ 7,207,551	\$ 12,990,923

CITY OF LYNCHBURG, VIRGINIA

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2003**

	Special Revenue Funds	Capital Project Funds	Total Nonmajor Governmental Funds
Revenues			
Taxes	\$ 1,114,213	\$ -	\$ 1,114,213
Intergovernmental	8,682,234	2,669,314	11,351,548
Revenue from use of money and property	110,290	39,391	149,681
Charges for services	2,238,314	-	2,238,314
Miscellaneous	1,062,057	272,447	1,334,504
Total revenues	<u>13,207,108</u>	<u>2,981,152</u>	<u>16,188,260</u>
Expenditures			
Current:			
General government	180,326	-	180,326
Judicial	138,843	-	138,843
Health and human services	2,993,548	-	2,993,548
Public safety	5,002,734	-	5,002,734
Public works	8,681	-	8,681
Community development	2,738,636	-	2,738,636
Cultural and recreational	54,208	-	54,208
Non-departmental	-	123,584	123,584
Capital outlay	-	10,402,729	10,402,729
Principal retirement	387,809	1,348,000	1,735,809
Interest payments	313,576	68,846	382,422
Total expenditures	<u>11,818,361</u>	<u>11,943,159</u>	<u>23,761,520</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,388,747</u>	<u>(8,962,007)</u>	<u>(7,573,260)</u>
Other financing sources (uses)			
Proceeds from debt issues	407,270	10,250,569	10,657,839
Construction advance	-	(3,525,664)	(3,525,664)
Transfers in	667,406	4,296,704	4,964,110
Transfer out	(542,686)	(267,629)	(810,315)
Total other financing sources (uses)	<u>531,990</u>	<u>10,753,980</u>	<u>11,285,970</u>
Net change in fund balances	<u>1,920,737</u>	<u>1,791,973</u>	<u>3,712,710</u>
Fund balance - beginning	<u>1,367,248</u>	<u>3,664,407</u>	<u>5,031,655</u>
Fund balance - ending	<u>\$ 3,287,985</u>	<u>\$ 5,456,380</u>	<u>\$ 8,744,365</u>

City of Lynchburg, Virginia
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2003

	City Federal/State Aid Projects Fund	Community Development Block Grant Fund	Title XX Grant Fund	Museum System Fund	Lynchburg Business Development Centre Fund	Detention Home Fund	Law Library Fund	Recycling Program Fund	Forfeited Assets Fund
Assets									
Cash and cash equivalents	\$ 1,014,619	\$ 2,254	\$ 5,800	\$ 14,813	\$ 171	\$ 110,278	\$ 6,936	\$ 73,150	\$ 138,956
Other receivables	75,830	327,772	4,747	-	-	-	-	-	-
Due from component units	-	-	-	-	155,000	-	-	-	-
Due from other governments	978,133	223,487	-	-	213	84,354	-	-	20,612
Other assets	-	-	-	-	-	-	-	-	-
Total assets	\$ 2,068,582	\$ 553,513	\$ 10,547	\$ 14,813	\$ 155,384	\$ 194,632	\$ 6,936	\$ 73,150	\$ 159,568
Liabilities and fund balances									
Liabilities:									
Accounts payable	\$ 575,656	\$ 51,264	\$ -	\$ 494	\$ -	\$ 27,053	\$ 3,305	\$ -	\$ -
Accrued liabilities	25,037	1,354	-	551	-	56,817	-	-	-
Retainage payable	1,420	-	-	-	-	-	-	-	-
Due to other governments	7,111	20,893	-	-	-	-	-	-	-
Due to other funds	-	385,661	-	-	30,000	63,250	-	-	-
Deferred revenue	191,773	152,530	-	-	-	-	-	-	-
Total liabilities	800,997	611,702	-	1,045	30,000	147,120	3,305	-	-
Fund balances:									
Reserved for:									
Encumbrances	107,635	-	-	-	-	6,055	-	-	-
Unreserved:									
Designated	876,574	22,437	1,839	-	-	84,483	-	-	159,568
Undesignated	283,376	(80,626)	8,708	13,768	125,384	(43,026)	3,631	73,150	-
Total fund balances	1,267,585	(58,189)	10,547	13,768	125,384	47,512	3,631	73,150	159,568
Total liabilities and fund balances	\$ 2,068,582	\$ 553,513	\$ 10,547	\$ 14,813	\$ 155,384	\$ 194,632	\$ 6,936	\$ 73,150	\$ 159,568

City of Lynchburg, Virginia
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2003

	Lynchburg Expressway Appearance Fund	Compre- hensive Service Act Fund	E-911 Fund	Home Investment Trust Fund	Central Virginia Regional Radio Board Fund	Partners In Emergency Response Fund	Technology Fund	City Stadium Fund	Total Nonmajor Special Revenue Funds
Assets									
Cash and cash equivalents	\$ 10,452	\$ -	\$ 1,101,129	\$ -	\$ 27,358	\$ 35,970	\$ 887,383	\$ 5,188	\$ 3,434,457
Other receivables	-	-	86,681	-	-	-	-	-	495,030
Due from component units	-	-	-	-	-	-	-	-	155,000
Due from other governments	-	387,654	-	-	-	-	-	-	1,694,453
Other assets	-	4,432	-	-	-	-	-	-	4,432
Total assets	\$ 10,452	\$ 392,086	\$ 1,187,810	\$ -	\$ 27,358	\$ 35,970	\$ 887,383	\$ 5,188	\$ 5,783,372
Liabilities and fund balances									
Liabilities:									
Accounts payable	\$ 490	\$ 194,706	\$ 24,331	\$ 1,720	\$ 4,046	\$ 13,541	\$ 2,232	\$ 5,188	\$ 904,026
Accrued liabilities	-	1,035	-	-	-	-	-	-	84,794
Retainage payable	-	-	-	-	-	-	-	-	1,420
Due to other governments	-	-	-	-	-	-	-	-	28,004
Due to other funds	-	592,286	51,500	10,143	-	-	-	-	1,132,840
Deferred revenue	-	-	-	-	-	-	-	-	344,303
Total liabilities	490	788,027	75,831	11,863	4,046	13,541	2,232	5,188	2,495,387
Fund balances:									
Reserved for:									
Encumbrances	730	-	60,302	-	-	-	93,702	-	268,424
Unreserved:									
Designated	-	-	155,826	-	-	-	-	-	1,300,727
Undesignated	9,232	(395,941)	895,851	(11,863)	23,312	22,429	791,449	-	1,718,834
Total fund balances	9,962	(395,941)	1,111,979	(11,863)	23,312	22,429	885,151	-	3,287,985
Total liabilities and fund balances	\$ 10,452	\$ 392,086	\$ 1,187,810	\$ -	\$ 27,358	\$ 35,970	\$ 887,383	\$ 5,188	\$ 5,783,372

City of Lynchburg, Virginia

Combining Statement of Revenues,
Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
Year Ended June 30, 2003

	City Federal/State Aid Projects Fund	Community Development Block Grant Fund	Title XX Grant Fund	Museum System Fund	Lynchburg Business Development Centre Fund	Detention Home Fund	Law Library Fund	Recycling Program Fund	Forfeited Assets Fund
Revenues									
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	4,569,941	839,675	51,001	-	-	1,169,884	-	-	119,764
Revenue from use of money and property	1,637	-	-	-	31,153	-	-	-	522
Charges for services	144,663	20,248	-	8,880	-	1,394,268	62,589	-	-
Miscellaneous	7,097	81,015	18,169	413	-	-	-	27,398	-
Total revenues	4,723,338	940,938	69,170	9,293	31,153	2,564,152	62,589	27,398	120,286
Expenditures									
Current:									
General government	-	-	-	-	-	-	-	-	-
Judicial	138,843	-	-	-	-	-	-	-	-
Health and human services	54,357	-	62,226	-	-	-	-	-	-
Public safety	1,184,299	-	-	-	-	2,284,657	-	-	48,033
Public works	-	-	-	-	-	-	-	559	-
Community development	1,514,798	997,748	-	-	31,153	-	-	-	-
Cultural and recreational	3,513	-	-	14,365	-	-	36,330	-	-
Principal retirement	-	-	-	-	-	132,114	-	-	-
Interest payments	-	-	-	-	-	140,711	-	-	-
Total expenditures	2,895,810	997,748	62,226	14,365	31,153	2,557,482	36,330	559	48,033
Excess (deficiency) of revenues over (under) expenditures	1,827,528	(56,810)	6,944	(5,072)	-	6,670	26,259	26,839	72,253
Other financing sources (uses)									
Proceeds from debt issues	-	-	-	-	-	-	-	-	-
Transfers in	30,649	-	-	-	-	-	-	-	-
Transfer out	(390,653)	-	-	-	-	(13,883)	(26,150)	(7,000)	-
Total other financing sources (uses)	(360,004)	-	-	-	-	(13,883)	(26,150)	(7,000)	-
Net change in fund balances	1,467,524	(56,810)	6,944	(5,072)	-	(7,213)	109	19,839	72,253
Fund balance - beginning	(199,939)	(1,379)	3,603	18,840	125,384	54,725	3,522	53,311	87,315
Fund balance - ending	\$ 1,267,585	\$ (58,189)	\$ 10,547	\$ 13,768	\$ 125,384	\$ 47,512	\$ 3,631	\$ 73,150	\$ 159,568

City of Lynchburg, Virginia

Combining Statement of Revenues,
Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
Year Ended June 30, 2003

	Lynchburg Expressway Appearance Fund	Compre- hensive Service Act Fund	E-911 Fund	Home Investment Trust Fund	Central Virginia Regional Radio Board Fund	Partners In Emergency Response Fund	Technology Fund	City Stadium Fund	Total Nonmajor Special Revenue Funds
Revenues									
Taxes	\$ -	\$ -	\$ 1,114,213	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,114,213
Intergovernmental	-	1,783,930	19,492	128,547	-	-	-	-	8,682,234
Revenue from use of money and property	-	-	66,357	-	-	-	10,621	-	110,290
Charges for services	-	-	-	-	559,166	48,500	-	-	2,238,314
Miscellaneous	5,000	852,938	-	46,696	-	-	23,331	-	1,062,057
Total revenues	5,000	2,636,868	1,200,062	175,243	559,166	48,500	33,952	-	13,207,108
Expenditures									
Current:									
General government	-	-	-	-	-	-	180,326	-	180,326
Judicial	-	-	-	-	-	-	-	-	138,843
Health and human services	-	2,876,965	-	-	-	-	-	-	2,993,548
Public safety	-	-	853,669	-	556,005	76,071	-	-	5,002,734
Public works	8,122	-	-	-	-	-	-	-	8,681
Community development	-	-	-	194,937	-	-	-	-	2,738,636
Cultural and recreational	-	-	-	-	-	-	-	-	54,208
Principal retirement	-	-	255,695	-	-	-	-	-	387,809
Interest payments	-	-	172,865	-	-	-	-	-	313,576
Total expenditures	8,122	2,876,965	1,282,229	194,937	556,005	76,071	180,326	-	11,818,361
Excess (deficiency) of revenues over (under) expenditures	(3,122)	(240,097)	(82,167)	(19,694)	3,161	(27,571)	(146,374)	-	1,388,747
Other financing sources (uses)									
Proceeds from debt issues	-	-	407,270	-	-	-	-	-	407,270
Transfers in	-	-	-	25,000	-	-	611,757	-	667,406
Transfer out	-	-	(105,000)	-	-	-	-	-	(542,686)
Total other financing sources (uses)	-	-	302,270	25,000	-	-	611,757	-	531,990
Net change in fund balances	(3,122)	(240,097)	220,103	5,306	3,161	(27,571)	465,383	-	1,920,737
Fund balance - beginning	13,084	(155,844)	891,876	(17,169)	20,151	50,000	419,768	-	1,367,248
Fund balance - ending	\$ 9,962	\$ (395,941)	\$ 1,111,979	\$ (11,863)	\$ 23,312	\$ 22,429	\$ 885,151	\$ -	\$ 3,287,985

City of Lynchburg, Virginia
Combining Balance Sheet
Nonmajor Capital Project Funds
June 30, 2003

	City Capital Projects Fund	Highway Projects Grant Fund	School Capital Projects Fund	Total Nonmajor Capital Project Funds
Assets				
Cash and cash equivalents	\$ 5,424,921	\$ 226,766	\$ 874,901	\$ 6,526,588
Other receivables	-	33,769	830	34,599
Due from other governments	200,000	446,364	-	646,364
Total assets	\$ 5,624,921	\$ 706,899	\$ 875,731	\$ 7,207,551
Liabilities and fund balances				
Liabilities:				
Accounts payable	\$ 1,061,605	\$ 38,295	\$ 38,013	\$ 1,137,913
Retainage payable	229,949	-	149,540	379,489
Deferred revenue	200,000	33,769	-	233,769
Total liabilities	1,491,554	72,064	187,553	1,751,171
Fund balances:				
Reserved for:				
Encumbrances	2,261,697	9,520	-	2,271,217
Unreserved:				
Designated	11,538,274	-	2,526,266	14,064,540
Undesignated	(9,666,604)	625,315	(1,838,088)	(10,879,377)
Total fund balances	4,133,367	634,835	688,178	5,456,380
Total liabilities and fund balances	\$ 5,624,921	\$ 706,899	\$ 875,731	\$ 7,207,551

City of Lynchburg, Virginia

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Capital Project Funds

Year Ended June 30, 2003

	City Capital Projects Fund	Highway Projects Grant Fund	School Capital Projects Fund	Total Nonmajor Capital Project Funds
Revenues				
Intergovernmental	\$ -	\$ 1,771,955	\$ 897,359	\$ 2,669,314
Revenue from use of money and property	-	-	39,391	39,391
Miscellaneous	-	143,052	129,395	272,447
Total revenues	-	1,915,007	1,066,145	2,981,152
Expenditures				
Current:				
Non-departmental	78,509	-	45,075	123,584
Capital outlay	8,300,695	381,626	1,720,408	10,402,729
Principal retirement	168,000	1,180,000	-	1,348,000
Interest payments	1,458	67,388	-	68,846
Total expenditures	8,548,662	1,629,014	1,765,483	11,943,159
Excess (deficiency) of revenues over (under) expenditures	(8,548,662)	285,993	(699,338)	(8,962,007)
Other financing sources (uses)				
Proceeds from debt issues	7,842,854	-	2,407,715	10,250,569
Construction advance	-	-	(3,525,664)	(3,525,664)
Transfers in	4,029,075	267,629	-	4,296,704
Transfer out	(267,629)	-	-	(267,629)
Total other financing sources (uses)	11,604,300	267,629	(1,117,949)	10,753,980
Net change in fund balances	3,055,638	553,622	(1,817,287)	1,791,973
Fund balance - beginning	1,077,729	81,213	2,505,465	3,664,407
Fund balance - ending	\$ 4,133,367	\$ 634,835	\$ 688,178	\$ 5,456,380

CITY OF LYNCHBURG, VIRGINIA

Discretely Presented Component Unit - Lynchburg City Schools

The Lynchburg City Schools operates the ten elementary, the three middle, and the two high schools in the City. The funds and account groups of the schools are described below:

- School Operating Fund - Accounts for the primary operating activities of the Lynchburg City Schools.
- School Federal Aid Projects Fund - Accounts for the various federal and state grants for the educational purposes of the Lynchburg City Schools. Also accounts for the activities of the Central Virginia Governor's School for Science and Technology, a regional program supported by the City of Lynchburg and four surrounding counties, for which Lynchburg City Schools serves as fiscal agent.
- School Cafeteria Fund - Accounts for revenues received from the sale of food in the Lynchburg City Schools.
- Permanent Fund – Accounts for funds invested with the Greater Lynchburg Community Trust for the support of education.

City of Lynchburg, Virginia

Discretely Presented Component Unit - Lynchburg City Schools

Combining Balance Sheet

June 30, 2003

	School Operating Fund	School Federal Aid Fund	School Cafeteria Fund	Permanent Fund	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 9,639,828	\$ (606,364)	\$ 395,762	\$ -	\$ 9,429,226
Investments	-	-	-	66,116	66,116
Due from other governments	835,293	912,199	-	-	1,747,492
Due from Laurel Regional Program	214,638	-	-	-	214,638
Due from other funds	47,367	-	82,180	-	129,547
Inventory	-	-	62,896	-	62,896
Prepaid expenses	76,837	-	-	-	76,837
Restricted cash in bank	9,638	-	-	-	9,638
Total assets	<u>\$ 10,823,601</u>	<u>\$ 305,835</u>	<u>\$ 540,838</u>	<u>\$ 66,116</u>	<u>\$ 11,736,390</u>
Liabilities and fund balances					
Liabilities:					
Accounts payable	\$ 408,787	\$ 25,564	\$ 120	\$ -	\$ 434,471
Due to other funds	82,180	-	47,367	-	129,547
Accrued liabilities	7,474,105	567,627	6,724	-	8,048,456
Deferred revenue	-	145,072	-	-	145,072
Total liabilities	<u>7,965,072</u>	<u>738,263</u>	<u>54,211</u>	<u>-</u>	<u>8,757,546</u>
Fund balances:					
Reserved for:					
Encumbrances	19,022	16,173	-	-	35,195
Inventory	-	-	62,896	-	62,896
Unreserved					
Undesignated	2,839,507	(448,601)	423,731	66,116	2,880,753
Total fund balances	<u>2,858,529</u>	<u>(432,428)</u>	<u>486,627</u>	<u>66,116</u>	<u>2,978,844</u>
Total liabilities and fund balances	<u>\$ 10,823,601</u>	<u>\$ 305,835</u>	<u>\$ 540,838</u>	<u>\$ 66,116</u>	
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds					5,236,475
Prepaid asset resulting from the annual payment of tuition to the Laurel Regional Program is reported in the statement of net assets					1,000,000
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds					(2,565,111)
Net assets of School Component Unit activities					<u>\$ 6,650,208</u>

City of Lynchburg, Virginia

Discretely Presented Component Unit - Lynchburg City Schools
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Year Ended June 30, 2003

	School Operating Fund	School Federal Aid Fund	School Cafeteria Fund	Permanent Fund	Total Governmental Funds
Revenues					
Intergovernmental	\$ 35,813,533	\$ 6,107,421	\$ 1,566,203	\$ -	\$ 43,487,157
Revenue from use of money and property	-	-	766	1,247	2,013
Charges for services	390,409	298,230	830,358	-	1,518,997
Miscellaneous	27,266,567	146,131	14,675	-	27,427,373
Total revenues	63,470,509	6,551,782	2,412,002	1,247	72,435,540
Expenditures					
Education:					
Instruction	49,580,140	5,667,588	-	-	55,247,728
Administration, attendance and health	1,741,567	69,449	-	2,021	1,813,037
Pupil transportation services	2,990,460	-	-	-	2,990,460
Operations and maintenance	7,349,258	34,974	2,330,889	-	9,715,121
Capital outlay	2,183,590	981,576	87,500	-	3,252,666
Debt service:					
Principal retirement	-	22,079	-	-	22,079
Interest payments	-	15,890	-	-	15,890
Total expenditures	63,845,015	6,791,556	2,418,389	2,021	73,056,981
Excess (deficiency) of revenues over (under) expenditures	(374,506)	(239,774)	(6,387)	(774)	(621,441)
Other financing sources (uses)					
Proceeds from capital lease	1,000,000	-	-	-	1,000,000
Transfers in	-	120,810	-	-	120,810
Transfers out	(120,810)	-	-	-	(120,810)
Total other financing sources (uses)	879,190	120,810	-	-	1,000,000
Net change in fund balances	504,684	(118,964)	(6,387)	(774)	378,559
Fund balance - beginning, as adjusted	2,353,845	(313,464)	493,014	66,890	2,600,285
Fund balance - ending	<u>\$ 2,858,529</u>	<u>\$ (432,428)</u>	<u>\$ 486,627</u>	<u>\$ 66,116</u>	<u>\$ 2,978,844</u>

City of Lynchburg, Virginia
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
Year Ended June 30, 2003

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ 378,559
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceed capital outlay.</p>	(529,810)
<p>The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effects on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>	<u>18,271</u>
Change in net assets of governmental activities	<u><u>\$ (132,980)</u></u>

City of Lynchburg, Virginia

Discretely Presented Component Unit - Lynchburg City Schools
 School Operating Fund
 Schedule of Revenues, Expenditures and Other Financing Sources (Uses)
 Budget and Actual (Non-GAAP Budgetary Basis)
 Year Ended June 30, 2003

	Revised Budget	Actual	Variance Positive (Negative)
REVENUES			
Intergovernmental	\$ 35,640,350	\$ 36,605,042	\$ 964,692
Miscellaneous	32,034,395	27,679,023	(4,355,372)
Total revenues	67,674,745	64,284,065	(3,390,680)
EXPENDITURES			
Current:			
Education:			
Instruction	48,527,883	48,483,490	44,393
Administration, attendance, and health	1,871,865	1,765,938	105,927
Pupil transportation services	3,021,203	3,071,882	(50,679)
Operations and maintenance	6,567,212	7,453,365	(886,153)
Technology	2,460,351	2,190,903	269,448
Capital outlay - Capital leases	-	916,471	(916,471)
Debt service	4,438,984	-	4,438,984
Total expenditures	66,887,498	63,882,049	3,005,449
Excess revenues over expenditures	787,247	402,016	(385,231)
OTHER FINANCING SOURCES (USES)			
Proceeds from debt - Capital leases	-	1,000,000	1,000,000
Transfers to Capital Projects Fund	(787,247)	(917,552)	(130,305)
Total other financing sources	(787,247)	82,448	869,695
Excess (deficiency) of revenues and other financing sources over expenditures	\$ -	\$ 484,464	\$ 484,464

CITY OF LYNCHBURG, VIRGINIA

Combining Statement of Net Assets

Other Component Units

June 30, 2003

	Component Units		
	Business Development Centre, Inc.	Greater Lynchburg Transit Company	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 381,591	\$ 97,287	\$ 478,878
Receivables (net of allowance for uncollectibles)	772,752	222,130	994,882
Prepaid and other assets	-	134,007	134,007
Capital assets			
Land and improvements	-	63,152	63,152
Buildings and improvements	-	479,489	479,489
Machinery and equipment	-	4,427,819	4,427,819
Infrastructure	-	68,227	68,227
Total assets	1,154,343	5,492,111	6,646,454
Liabilities			
Accounts payable and other current liabilities	747,393	109,655	857,048
Notes payable, bank	-	250,000	250,000
Due to primary government	155,000	15,936	170,936
Total liabilities	902,393	375,591	1,277,984
Net assets			
Net assets, capital net of debt	-	5,038,687	5,038,687
Net assets - unrestricted	251,950	77,833	329,783
Total net assets	\$ 251,950	\$ 5,116,520	\$ 5,368,470

CITY OF LYNCHBURG, VIRGINIA

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets

Other Component Units

Year Ended June 30, 2003

	Component Units		
	Business Development Centre, Inc.	Greater Lynchburg Transit Company	Total
Operating revenues			
Charges for services and other operating revenues	\$ 236,922	\$ 987,839	\$ 1,224,761
Miscellaneous	76,200	15,986	92,186
Total operating revenues	313,122	1,003,825	1,316,947
Operating expenses			
Operations	469,952	1,919,104	2,389,056
Administration	10,623	818,967	829,590
Maintenance and repairs	27,361	692,052	719,413
Total operating expenses	507,936	3,430,123	3,938,059
Operating loss	(194,814)	(2,426,298)	(2,621,112)
Nonoperating revenue (expense)			
Operating funds from City of Lynchburg	-	530,015	530,015
Donations and grants	237,697	1,896,283	2,133,980
Depreciation expense	-	(884,567)	(884,567)
Experimental grant expenses	-	(1,201)	(1,201)
Loss on sale of property and equipment	-	(59,571)	(59,571)
Total nonoperating revenue (expense)	237,697	1,480,959	1,718,656
Capital contributions	-	111,721	111,721
Change in net assets	42,883	(833,618)	(790,735)
Total net assets - beginning	209,067	5,950,138	6,159,205
Total net assets - ending	\$ 251,950	\$ 5,116,520	\$ 5,368,470

CITY OF LYNCHBURG, VIRGINIA

Combining Statement of Cash Flows
Other Component Units
Year Ended June 30, 2003

	Component Units		
	Business Development Centre, Inc.	Greater Lynchburg Transit Company	Total
Operating activities			
Cash received from operations	\$ 398,479	\$ 1,010,840	\$ 1,409,319
Cash paid to employees and suppliers	(428,758)	(3,419,548)	(3,848,306)
Cash paid for interest	(428)	-	(428)
New loans disbursed	(232,000)	-	(232,000)
Net cash used in operating activities	(262,707)	(2,408,708)	(2,671,415)
Noncapital financing activities			
Subsidies	-	2,239,038	2,239,038
Operating grants and contributions	237,697	-	237,697
Net cash provided by noncapital financing activities	237,697	2,239,038	2,476,735
Capital and related financing activities			
Capital contributions	-	153,709	153,709
Additions to capital assets	-	(223,148)	(223,148)
Proceeds from sale of capital assets	-	1,006	1,006
Proceeds from bank	-	250,000	250,000
Experimental grant and other expenses	-	(1,201)	(1,201)
Net cash provided by capital and related financing activities	-	180,366	180,366
Net increase (decrease) in cash and cash equivalents/investments	(25,010)	10,696	(14,314)
Cash and cash equivalents/investments Beginning of year	406,601	86,591	493,192
End of year	\$ 381,591	\$ 97,287	\$ 478,878

CITY OF LYNCHBURG, VIRGINIA

**Combining Statement of Cash Flows
Other Component Units
Year Ended June 30, 2003**

	Component Units		
	Business Development Centre, Inc.	Greater Lynchburg Transit Company	Total
Reconciliation of operating loss to net cash used in operating activities			
Operating loss	\$ (194,814)	\$ (2,426,298)	\$ (2,621,112)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation	-	30	30
(Increase) decrease in receivables	(147,625)	7,015	(140,610)
Increase in prepaid expenses and other assets	-	8,804	8,804
Decrease in accounts payable and other current liabilities	79,732	1,741	81,473
Increase in amounts due to primary government	-	-	-
Total adjustments	(67,893)	17,590	(50,303)
Net cash provided by (used in) operating activities	\$ (262,707)	\$ (2,408,708)	\$ (2,671,415)

Supplemental Schedules

CITY OF LYNCHBURG, VIRGINIA

Computation of Legal Debt Margin

Year Ended June 30, 2003

Total assessed value of real estate	<u>\$ 3,010,157,518</u>
Legal Debt Limit - 10% of total assessed value of real estate	301,015,752
Less bonded debt as of June 30, 2003	<u>149,371,377</u>
Legal debt margin	<u>\$ 151,644,375</u>

CITY OF LYNCHBURG, VIRGINIA

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2003**

Federal Granting Agency/ Recipient State Agency/ <u>Grant Program</u>	Federal CFDA Number	Federal Expenditures
<u>PRIMARY GOVERNMENT</u>		
DEPARTMENT OF AGRICULTURE		
Passed through Commonwealth of Virginia:		
Department of Juvenile Justice:		
School Breakfast Program	10.553	\$ 49,881
Department of Social Services:		
Food Stamp Administration	10.561	1,001,785
DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Passed through Commonwealth of Virginia:		
Department of Social Services:		
Family Preservation and Support	93.556	81,759
Foster Care - Title IV-E	93.658	2,301,108
Social Services Block Grant	93.667	653,987
Independent Living	93.674	68,677
Refugee and Entrant Assistance State - Administered Programs	93.566	767
Child Care Assistance	93.575	499,467
Child Care Development Fund	93.596	503,688
TANF Block Grant	93.558	757,520
Low Income Energy Assistance	93.568	44,865
Adoption Assistance	93.659	321,904
Medicaid Assistance	93.778	487,530
Adoption Incentive Program	93.603	2,618
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
Direct payments:		
Community Development Block Grant Program, Entitlement Grants	14.218	839,675
Home Investment Partnership Program	14.239	128,547
Brownfield Economic Development Initiative	14.246	243,953
Community Development Block Grant Program, Section 108 Loan Guarantees	14.248	930,000
Lead Hazard Control	14.900	389,660
DEPARTMENT OF JUSTICE		
Direct Payments:		
Public Safety Partnership and Community Policing Grants ("Cops Grant")	16.710	110,890
Local Law Enforcement Block Grant Program	16.592	81,357
Domestic Violence Block Grant	16.530	11,323
Bulletproof Vest Partnership Program	16.607	8,834
Community Prosecution and Project Safe Neighborhood	16.609	78,891
Passed Through Commonwealth of Virginia:		
Department of Criminal Justice Services:		
Byrne Formula Grant - Drug Control and Systems Improvements	16.579	69,689
Victim-Witness Services	16.575	165,431
Juvenile Accountability Incentive Block Grant	16.523	12,514
Department of Motor Vehicles:		
Enforcing Underage Drinking Laws Program	16.727	32,979
Department of Emergency Services:		
State Domestic Preparedness Equipment Support Program	16.007	56,563

CITY OF LYNCHBURG, VIRGINIA

Schedule of Expenditures of Federal Awards Year Ended June 30, 2003

Federal Granting Agency/ Recipient State Agency/ <u>Grant Program</u>	Federal CFDA Number	Federal Expenditures
DEPARTMENT OF LABOR Passed Through Region 2000 Workforce Investment Board Workforce Investment Act	17.259	\$ 171,298
FEDERAL AVIATION ADMINISTRATION Direct Payments: Department of Aviation: Airport Improvement Program Airport security grant	20.106 20.106	398,525 37,218
DEPARTMENT OF TRANSPORTATION Direct Payments: Kemper Street Station Point of Honor Passed Through Commonwealth of Virginia: Department of Motor Vehicles: Alcohol Impaired Driving Grants	20.205 20.205 20.600	531,215 78,316 10,585
ENVIRONMENTAL PROTECTION AGENCY Passed Through Commonwealth of Virginia: Virginia Resources Authority: EPA Grant Revolving loan	66.606 66.458	1,323,900 3,351,083
FEDERAL EMERGENCY MANAGEMENT AGENCY Direct Payments: Assistance to Firefighters Passed Through Commonwealth of Virginia: Department of Emergency Services: Emergency Management Preparedness Grants State and Local Emergency Operations Grants	83.554 83.552 83.562	24,500 13,715 17,167

CITY OF LYNCHBURG, VIRGINIA

Schedule of Expenditures of Federal Awards Year Ended June 30, 2003

Federal Granting Agency/ Recipient State Agency/ <u>Grant Program</u>	Federal CFDA Number	Federal Expenditures
<u>COMPONENT UNIT - LYNCHBURG SCHOOLS</u>		
DEPARTMENT OF AGRICULTURE		
Passed Through Commonwealth of Virginia:		
Department of Agriculture:		
Food Distribution	10.555	\$ 141,468
Department of Education:		
National School Lunch Program	10.555	1,202,181
National School Breakfast Program	10.553	321,205
DEPARTMENT OF LABOR		
Passed Through Region 2000 Workforce		
Investment Board:		
Workforce Investment Act	17.259	175,045
Passed Through Commonwealth of Virginia:		
Employment Services and Job Training	17.249	32,076
Workforce Investment Act	17.261	21,804
DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Passed Through Commonwealth of Virginia:		
Refugee and Entrant Assistance	93.576	5,308
DEPARTMENT OF EDUCATION		
Direct Payments:		
Medicaid	93.778	14,382
Passed Through Commonwealth of Virginia:		
Adult Education State Grant Program	84.002	145,301
Title I		
Educationally Deprived Children - LEA	84.010	2,978,754
Title VI-B:		
Elementary and Secondary Education Act (ESEA):		
Chapter II	84.298	88,762
Special Education	84.027	2,074,622
Special Education Preschool Grants	84.173	67,853
Class Size Reduction	84.340	105,400
Title II - Part A funds	84.367	505,403
Vocational Education:		
Basic Grants to States	84.048	265,235
Eisenhower Math and Science	84.281	70,157
Goals 2000	84.276	1,874
Drug Free Schools and Communities	84.186	128,464
Even Start	84.213	201,243
Total Primary Government and Lynchburg City Schools		\$ <u>24,439,921</u>

CITY OF LYNCHBURG, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards June 30, 2003

Note 1. Significant accounting policy

Basis of Accounting:

The accompanying schedule of federal awards is prepared on the modified accrual basis of accounting.

Note 2. Business Development Centre, Inc. - Revolving Loan Fund

The Centre administers the Economic Development Administration Special Economic Adjustment Assistance Revolving Loan Fund Program CFDA 11.307 (01-49-03245) on behalf of the City of Lynchburg. Loans under this program are subject to various restrictions as determined by the Economic Development Administration.

The Centre received the funds indicated as follows:

	Federal	State	Local
Amount received through June 30, 1993	\$ 45,000	\$ -	\$ 24,000
Amount received through June 30, 1994	127,836	-	33,612
Amount received through June 30, 1995	44,027	-	14,676
Amount received through June 30, 1996	108,201	-	36,067
Bad debt charge off for the year ended June 30, 1996	(3,005)	-	(1,002)
Amount received through June 30, 1997	10,268	-	3,423
Recapitalized from earnings for the year ended June 30, 1997	3,005	-	1,002
Amount received through June 30, 1998	159,668	40,000	13,222
Amount received through June 30, 1999	-	-	-
Amount received through June 30, 2000	-	-	-
Amount received through June 30, 2001	-	-	-
Amount received through June 30, 2002	-	-	-
Amount received through June 30, 2003	-	-	-
	<u>\$ 495,000</u>	<u>\$ 40,000</u>	<u>\$ 125,000</u>

Note 3. Nonmonetary assistance

Nonmonetary assistance is reported in the Schedule of Federal Awards at the fair market value of the food commodities.

CITY OF LYNCHBURG, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards June 30, 2003

Note 4. Subgrantees

The federal expenditures for the Community Development Block Grant and Home Investment Partnership programs include grants to subrecipients as follows:

<u>Subrecipient</u>	<u>Community Development Block Grant</u>	<u>Home Investment Partnership Act</u>
Lynchburg Redevelopment & Housing Authority	\$ 288,391	\$ -
Lynchburg Community Action Group	102,708	38,130
Bethune Nursery School	10,631	-
YWCA	22,500	-
Lynchburg Neighborhood Development Foundation	3,421	148,595
The Legacy Project, Inc.	10,674	-
Dance Theatre of Lynchburg	15,000	-
Fellowship Community Outreach	480	-
Alliance for Families and Children	10,833	-
ARC of Central Virginia	888	-
New Land Samaritan Inn	10,000	-
Miriam's House	39,323	-
	<u>\$ 514,849</u>	<u>\$ 186,725</u>

Note 5. Program Income

In accordance with terms of the Community Development Block Grant Program, program income totaling \$96,240 was used to reduce the amount of federal funds in conjunction with the program's objective.

Note 6. Virginia Revolving Loan Fund (CFDA 66.458)

At June 30, 2003 the City had an outstanding loan balance through the Virginia Revolving Loan Fund in the amount of \$ 56,096,353 which includes \$ 17,994,225 of federal funds.

CITY OF LYNCHBURG, VIRGINIA

Schedule of Passenger Facility Charges

Year Ended June 30, 2003

<u>Federal Agency/Program Name/Application Number</u>	<u>PFC Balance July 1, 2002</u>	<u>Adjustments</u>	<u>PFC Collected</u>	<u>Interest Earnings</u>	<u>Expenditures</u>	<u>PFC Balance June 30, 2003</u>
<u>FEDERAL AVIATION ADMINISTRATION</u>						
Passenger Facility Charges (95-01-C-00-LYH)	\$ 103,850	\$ (100,222)	\$ -	\$ -	\$ 203	\$ 3,425
Passenger Facility Charges (00-02-C-00-LYH)	92,325	-	-	-	92,325	-
Passenger Facility Charges (01-03-C-00-LYH)	<u>16,648</u>	<u>100,222</u>	<u>153,387</u>	<u>2,756</u>	<u>187,802</u>	<u>85,211</u>
	<u>\$ 212,823</u>	<u>\$ -</u>	<u>\$ 153,387</u>	<u>\$ 2,756</u>	<u>\$ 280,330</u>	<u>\$ 88,636</u>

CITY OF LYNCHBURG, VIRGINIA

Schedule of Expenditures of Passenger Facility Charges

Year Ended June 30, 2003

<u>Project</u>	<u>PFC Expenditures</u>
<u>Application 1 (95-01-C-00-LYH)</u>	
Local share reimbursement (non-AIP) Easement Acquisition - Part 77	\$ 203
<u>Application 2 (00-02-C-00-LYH)</u>	
Local share reimbursement AIP-20, Airport Service Road/MUFIDS/Equipment	48,473
Local share reimbursement (non-AIP) Overlay General Aviation Apron	43,851
<u>Application 3 (01-03-C-00-LYH)</u>	
Local share reimbursement (non-AIP) PFC Development and Administrative Costs	5,969
Local share reimbursement Miscellaneous Projects	<u>181,834</u>
Total PFC Expenditures	<u>\$ 280,330</u>

STATISTICAL SECTION

CITY OF LYNCHBURG, VIRGINIA

Table 1

REVENUES AND EXPENDITURES - GOVERNMENTAL FUND TYPES (1)
LAST TEN FISCAL YEARS

UNAUDITED

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
REVENUES										
Taxes	\$ 81,766,514	\$ 79,972,330	\$ 78,904,476	\$ 75,261,807	\$ 74,095,046	\$ 71,723,052	\$ 68,536,138	\$ 66,590,865	\$ 64,458,307	\$ 62,981,339
Permits, privilege fees, and regulatory licenses	675,311	727,489	700,188	671,067	492,100	392,751	422,388	381,970	368,598	380,479
Fines and forfeitures	538,753	776,701	733,148	807,230	792,086	679,268	542,724	541,199	469,408	383,673
Revenue from use of money and property	1,072,095	1,665,929	3,158,285	3,220,342	2,867,567	4,169,157	3,279,838	4,166,660	3,959,943	2,716,854
Charges for services	7,244,302	8,337,517	9,197,558	8,764,207	7,327,759	6,922,784	5,903,462	5,065,382	6,005,661	6,471,959
Insurance proceeds	-	-	-	-	-	-	-	-	-	1,157,135
Miscellaneous	32,936,304 (2)	3,850,868	4,611,545	4,332,684	5,288,900	3,612,468	4,288,390	2,991,055	3,427,712	2,781,646
Intergovernmental	83,125,602	78,195,680	80,597,660	71,186,815	68,904,310	65,489,879	57,242,760	56,438,450	57,187,029	51,319,219
Total	\$ <u>207,358,881</u>	\$ <u>173,526,514</u>	\$ <u>177,902,860</u>	\$ <u>164,244,152</u>	\$ <u>159,767,768</u>	\$ <u>152,989,359</u>	\$ <u>140,215,700</u>	\$ <u>136,175,581</u>	\$ <u>135,876,658</u>	\$ <u>128,192,304</u>
EXPENDITURES										
Current:										
Legislative	\$ 280,414	\$ 425,377	\$ 327,708	\$ 300,727	\$ 227,428	\$ 255,094	\$ 261,364	\$ 203,402	\$ 200,081	\$ 182,800
Executive	722,601	983,056	762,751	1,822,386	1,155,518	532,436	510,826	480,014	423,330	303,489
Law	1,097,024	1,491,347	1,083,330	998,275	928,347	265,309	275,340	261,036	227,338	227,181
Data Processing	2,108,866	426,013	822,687	846,615	776,015	675,008	761,758	505,458	612,490	675,182
Finance	4,082,349	5,596,688	5,103,639	5,662,574	11,765,885	12,100,006	10,623,069	9,850,325	9,566,060	8,820,739
Personnel and employee development	693,902	707,508	697,216	699,557	369,755	564,929	583,808	393,229	359,479	370,672
Management and budget	783,347	42,383	108,211	301,226	392,474	797,605	698,827	644,372	283,913	579,132
Judicial	3,699,569	3,320,619	3,405,999	2,949,446	2,193,554	4,042,190	3,817,561	3,642,604	3,494,647	3,056,370
Health and human services	19,875,121	18,983,650	17,597,486	16,922,265	16,490,727	14,523,258	12,610,992	11,028,195	11,281,555	10,715,458
Education	96,791,757 (2)	66,942,558	66,571,588	62,643,982	62,792,552	57,423,193	54,979,182	51,844,719	52,408,486	50,473,041
Public safety	25,190,491	27,962,985	27,278,757	26,389,286	19,882,774	18,133,322	15,174,649	13,898,705	13,437,225	12,912,622
Public works	13,931,541	12,196,578	13,277,646	16,584,960	15,836,081	10,952,078	11,248,768	10,604,467	10,094,336	11,229,926
Community development	4,820,850	6,408,775	8,253,511	6,720,815	4,331,174	9,134,304	3,778,269	6,229,159	3,932,177	3,453,229
Culture and recreation	3,929,095	1,717,189	1,668,327	1,621,449	1,343,898	2,897,439	2,664,054	2,389,584	2,251,237	2,175,977
Nondepartmental	7,639,808	6,524,184	6,311,656	5,531,207	4,576,635	4,264,737	4,115,884	3,518,314	3,105,723	2,599,860
Capital outlay	14,041,043	20,122,650	19,751,542	21,990,347	10,536,446	18,957,497	23,891,963	14,653,905	13,906,578	12,799,139
Debt services	26,958,487 (3)	11,241,561	10,068,434	9,816,503	16,597,525	10,645,514	8,781,195	16,410,267	14,953,295	8,498,849
Total	\$ <u>226,646,265</u>	\$ <u>185,093,121</u>	\$ <u>183,090,488</u>	\$ <u>181,801,620</u>	\$ <u>170,196,788</u>	\$ <u>166,163,919</u>	\$ <u>154,777,509</u>	\$ <u>146,557,755</u>	\$ <u>140,537,950</u>	\$ <u>129,073,666</u>

(1) Includes the General Fund, Special Revenue Funds, Capital Project Funds, Lynchburg City Schools, and Business Development Centre, Inc. in fiscal years 1993-2001. Business Development Centre, Inc. not included in fiscal year 2002 amounts.

(2) The local contribution for Lynchburg City Schools is classified as miscellaneous revenue for the School statements and an education expense for the Primary Government statements.

(3) Debt service includes defeasement of bonds.

CITY OF LYNCHBURG, VIRGINIA

Table 2

**ASSESSED VALUE OF TAXABLE PROPERTY (1)
LAST TEN FISCAL YEARS**

UNAUDITED

Fiscal Year	Real Estate (2)	Personal Property (3)	Machinery and Tools (2)	Public Service Corporation		Total
				Real Estate	Personal Property	
2003	\$ 2,836,363,840	\$ 449,743,493	\$ 117,085,047	\$ 187,708,383	\$ 27,292,958	\$ 3,618,193,721
2002	2,743,591,485	419,024,367	106,329,586	163,282,375	33,883,382	3,466,111,195
2001	2,497,468,075	438,964,042	133,509,096	146,514,485	33,989,577	3,250,445,275
2000	2,449,420,625	411,292,462	131,817,754	147,404,173	26,207,912	3,166,142,926
1999	2,339,246,125	395,509,615	118,823,544	135,417,968	24,248,606	3,013,245,858
1998	2,290,471,575	376,396,894	103,346,245	134,128,601	24,168,112	2,928,511,427
1997	2,113,157,950	366,471,487	96,942,132	123,404,848	23,396,712	2,723,373,129
1996	2,079,069,127	314,745,348	96,503,007	133,140,649	25,781,569	2,649,239,700
1995	1,973,986,950	279,223,725	86,801,359	121,692,285	23,288,398	2,484,992,717
1994	1,945,411,504	259,155,676	86,768,383	120,539,756	22,428,984	2,434,304,303

(1) Assessed value is as of January 1 of the previous fiscal year.

(2) Real estate and machinery and tools are assessed at 100% of fair market value.

(3) Effective July 1, 1989, personal property is assessed at 100% of average trade-in value.

Personal Property is assessed at 100% of fair market value.

Sources: City of Lynchburg, Director of Finance, Real Estate Assessor, and Commissioner of Revenue.

CITY OF LYNCHBURG, VIRGINIA**Table 3****PROPERTY TAX RATES - PER \$100 OF ASSESSED VALUATION
LAST TEN FISCAL YEARS**

UNAUDITED

Fiscal Year	Real Estate	Personal Property	Machinery and Tools
2003	\$1.11	\$3.30	\$3.00
2002	1.11	3.30	3.00
2001	1.11	3.30	3.00
2000	1.11	3.30	3.00
1999	1.11	3.30	3.00
1998	1.11	3.30	3.00
1997	1.13	3.30	3.00
1996	1.16	3.30	3.00
1995	1.16	3.30	3.00
1994	1.18	3.30	3.00

CITY OF LYNCHBURG, VIRGINIA

Table 4

**PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS**

UNAUDITED

Fiscal Year	Total Tax Levy	Current Tax Collections (1)	Percent of Levy Collections	Delinquent Tax Collections (1)	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes	Percent of Delinquent Taxes to Tax Levy
2003	\$ 50,077,075	\$ 49,846,282	99.54%	\$ 1,200,837	\$ 51,047,119	101.94%	3,023,323	6.04
2002	48,710,267	48,051,108	98.65%	1,017,678	49,068,786	100.74%	2,787,472	5.72
2001	46,042,884	45,734,908	99.33%	858,274	46,593,182	101.20%	2,814,953	6.11
2000	44,505,082	43,175,341	97.01%	1,011,960	44,187,301	99.29%	2,812,021	6.32
1999	42,273,206	40,935,842	96.84%	743,598	41,679,440	98.60%	2,937,350	6.95
1998	41,219,739	39,793,041	96.54%	876,002	40,669,043	98.66%	4,716,070	11.44
1997	38,255,319	37,215,109	97.28%	790,508	38,005,617	99.35%	4,165,375	10.89
1996	37,424,590	36,491,353	97.51%	683,305	37,174,658	99.33%	3,915,673	10.46
1995	35,657,992	34,867,332	97.78%	1,208,775	36,076,107	101.17%	3,624,462	10.16
1994	34,171,967	33,098,071	96.86%	1,111,478	34,209,549	100.11%	4,042,557	11.83

(1) Real estate taxes are payable in four installments on or before November 15, January 15, March 15, and May 15 of the fiscal year. Personal property taxes are payable on or before November 15 if such property is titled within the City on or after January 1 of the tax year and before August 15 of the tax year. Taxes on personal property which are titled within the City after August 15 of the tax year are payable on or before February 15 of the following tax year. The tax levy and collections are exclusive of penalty and interest.

CITY OF LYNCHBURG, VIRGINIA

Table 5

**RATIO OF NET GENERAL BONDED DEBT TO ASSESSED VALUE AND NET BONDED DEBT PER CAPITA
LAST TEN FISCAL YEARS**

UNAUDITED

Fiscal Year	Population (1)	Assessed Value (in thousands)	Gross Bonded Debt (2)	Less Debt Payable from Enterprise Revenues (2)	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt Per Capita
2003	64,616	\$ 3,604,279	\$ 149,981,377	\$ 64,140,521	85,840,856	0.02382	1,328
2002	64,616	3,466,111	144,972,780	63,498,966	81,473,814	0.02351	1,261
2001	65,300	3,250,445	134,591,831	55,521,290	79,070,541	0.02433	1,211
2000	65,269	3,166,143	126,725,002	54,707,035	72,017,967	0.02275	1,103
1999	64,600	3,013,246	133,714,441	59,337,375	74,377,066	0.02468	1,151
1998	65,000	2,928,511	133,399,514	58,165,679	75,233,835	0.02569	1,157
1997	64,900	2,723,373	121,616,932	52,342,544	69,274,388	0.02544	1,067
1996	64,800	2,649,240	110,823,274	48,967,080	61,856,194	0.02335	955
1995	65,800	2,484,993	106,503,216	53,142,250	53,360,966	0.02147	811
1994	65,700	2,434,304	109,492,756	55,602,472	53,890,284	0.02214	820

Source: Director of Financial Services, City of Lynchburg, Virginia

(1) All data from the Weldon Cooper Center for Public Service, University of Virginia, Charlottesville, Virginia; provisional estimates, except for 1990 & 2000, United States Bureau of the Census. Provisional estimate not yet available for 2003.

(2) These figures do not include City of Lynchburg Public Utility Revenue Bonds.

CITY OF LYNCHBURG, VIRGINIA

Table 6

PRINCIPAL TAXPAYERS

June 30, 2003

UNAUDITED

Taxpayer	Type of Business	2003 Real Estate Assessed Valuation	2003 Total Assessed Valuation	Percentage of Total Assessed Valuation	2003 Total Tax Levy	Percentage of Total Tax Levy
Verizon Va, Inc.	Utility	\$ 85,912,110	\$ 93,645,102	2.59%	\$ 1,062,904	2.12%
RR Donnelley Printing Co.	Periodical publication printing	19,500,000	45,802,951	1.27%	1,005,609	2.01%
First Colony (GE Capital)	Life insurance	37,678,200	46,593,994	1.29%	712,449	1.42%
Framatone Technologies Group	Nuclear power design and fuel fabrication	25,827,400	35,898,479	0.99%	619,030	1.24%
AEP	Utility	41,778,662	47,989,531	1.33%	534,877	1.07%
Ericsson GE Mobile Communications	Mobile Communications	24,105,000	30,436,490	0.84%	457,529	0.91%
River Ridge, Ltd.	Shopping mall	36,578,900	36,918,714	1.02%	417,240	0.83%
Rock-Tenn Company Mill Division Inc.	Paperboard Manufacturing	3,474,500	13,746,916	0.38%	347,053	0.69%
Frito Lay, Inc.	Food manufacturer	25,143,300	25,170,225	0.70%	279,091	0.56%
Columbia Gas of Virginia, Inc.	Utility	13,464,739	23,098,424	0.64%	256,527	0.51%
Totals		<u>\$ 313,462,811</u>	<u>\$ 399,300,826</u>	<u>11.04%</u>	<u>\$ 5,692,309</u>	<u>11.37%</u>
Total Assessed Valuation: (1)	\$	3,618,193,721				
Tax Levy: (1)						
Real Estate	\$	31,483,653				
Railroads and Pipeline		146,415				
Public Service Corporations		1,937,148				
Personal Property		16,509,859				
Total Tax Levy:	\$	50,077,075				

(1) Source: City of Lynchburg, Real Estate Assessor, and Commissioner of Revenue.

CITY OF LYNCHBURG, VIRGINIA

Table 7

**PROPERTY VALUE, CONSTRUCTION, AND BANK DEPOSITS
LAST TEN FISCAL YEARS**

UNAUDITED

Fiscal Year	Property Value (1)				Commercial Construction (2)		Residential Construction (2)		Bank Deposits (3)*
	Commercial	Residential	Exemptions	Total	Number of Units	Value	Number of Units	Value	
2003	\$ 949,931,950	\$ 1,874,979,135	\$ 667,648,300	\$ 3,492,559,385	178	\$ 96,401,733	978	\$ 59,119,994	N/A
2002	925,670,250	1,825,363,885	622,883,800	3,373,917,935	24	41,066,199	254	34,611,807	N/A
2001	864,892,200	1,640,119,075	594,324,850	3,099,336,125	21	18,684,568	128	19,402,235	1,492,613
2000 (4)	836,660,600	1,620,521,425	591,109,500	3,048,291,525	41	53,949,457	189	81,549,864	1,360,203
1999	782,851,250	1,564,690,825	561,037,850	2,908,577,925	90	40,883,124	862	42,939,788	1,359,876
1998	757,491,150	1,543,357,925	542,149,000	2,842,998,075	114	296,777,401	460	18,278,629	1,233,851
1997	718,413,000	1,403,375,350	536,254,400	2,658,042,750	159	50,479,893	602	17,375,955	785,306
1996	699,698,450	1,388,162,800	529,951,650	2,617,812,900	135	37,990,862	429	13,291,988	760,000
1995	681,951,050	1,300,962,750	511,324,030	2,494,237,830	133	203,134,725	416	50,346,306	754,123
1994	665,795,200	1,289,101,250	509,912,430	2,464,808,880	148	56,134,725	577	15,668,405	756,589

* Amounts expressed in thousands

(1) Source: Real Estate Assessments.

(2) Source: City of Lynchburg Building Inspection Department.

(3) Source: FDIC

(4) In FY 2000 the City changed the way it issued construction permits to differentiate between new construction versus remodeling and additions. For FY 2000 and 2001, only new construction is shown.

CITY OF LYNCHBURG, VIRGINIA

Table 8

**RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR GENERAL FUND
BONDED DEBT TO TOTAL GENERAL FUND EXPENDITURES, TRANSFERS TO SCHOOL
OPERATING FUND, AND RESERVE ALLOCATIONS
LAST TEN FISCAL YEARS**

UNAUDITED

Fiscal Year	Principal (1)	Interest (2)	Total Debt Service	Total General Governmental Expenditures (3)	Ratio of Debt Service to General Governmental Expenditures (4)
2003	\$ 6,810,819	\$ 3,862,166	\$ 10,672,985	\$ 136,036,068	8 %
2002	7,170,673	4,070,888	11,241,561	114,907,592	10
2001	5,528,883	3,846,500	9,375,383	118,766,574	8
2000	5,566,054	3,543,009	9,109,063	112,208,412	8
1999	6,233,829	3,481,876	9,715,705	104,639,900	9
1998	6,317,424	3,684,107	10,001,531	107,918,885	9
1997	5,235,179	3,546,016	8,781,195	98,253,772	9
1996 (5)	6,347,441	3,404,227	9,751,668	97,292,266	10
1995 (6)	5,920,256	3,308,839	9,229,095	87,472,398	11
1994	5,607,581	2,891,268	8,498,849	84,399,351	10

- (1) General obligation bonds reported in the enterprise funds, special assessment debt with government commitment, and special revenue funds have been excluded, with the exception of 1992 and 1993 School General Obligation bonded debt, which was presented as Special Revenue Debt.
- (2) Excluding bond issuance and other costs.
- (3) Includes all General Fund expenditures, operating transfers out, and transfers to component units.
- (4) Per the City of Lynchburg's Financial Management Policies adopted August 10, 1999, and reaffirmed on November 14, 2000:
Annual debt service expenditures for tax-supported debt should not exceed 10% of the following:
Total General Fund Expenditures plus (a) transfers to the School Operating Fund and (b) Reserve Allocations.
- (5) Principal payments exclude \$6,658,599 of school retirement incentive liability.
- (6) Principal payments excluded pay-off of bond anticipation note in the amount of \$5,725,000.

CITY OF LYNCHBURG, VIRGINIA

Table 9

DEMOGRAPHIC STATISTICS
LAST TEN FISCAL YEARS

UNAUDITED

Fiscal Year	Population (1)	Median Age (1)	Per Capita Income (3)	School Enrollment (4)	Unemployment Rate (3)
2003	65,269 ⁽²⁾	35.1	\$ 18,263	8,734	4.0%
2002	65,269 ⁽²⁾	N/A	N/A	9,064	N/A
2001	65,269 ⁽²⁾	35.1	N/A	9,212	4.5
2000	65,269 ⁽²⁾	35.1	18,263	9,296	2.1
1999	64,400 ⁽²⁾	33.1	23,649	9,387	2.5
1998	65,200 ⁽²⁾	33.1	22,783	9,515	4.1
1997	64,800 ⁽²⁾	33.1	22,169	9,506	N/A
1996	65,800 ⁽²⁾	33.1	21,434	9,476	N/A
1995	65,700 ⁽²⁾	33.1	20,849	9,403	3.8
1994	66,100 ⁽²⁾	33.1	18,825	9,314	5.0

(1) Source: United States Census - 2000

(2) Source: Weldon Cooper Center for Public Service, University of Virginia.

(3) Source: Virginia Employment Commission (annual average).

(4) Source: City of Lynchburg School District.

CITY OF LYNCHBURG, VIRGINIA

Table 10

MISCELLANEOUS STATISTICS

June 30, 2003

Unaudited

Date of Incorporation	1805
Date of Independent City Status	1852
Form of Government	Council-Manager
Number of employees (excluding police and fire):	
Classified	789
Exempt	300
Area in square miles	50.107 square miles
City of Lynchburg facilities and services:	
Miles of Streets	365.95
Number of street lights	10,200
Number of traffic signals	110
Culture and recreation:	
Community centers	7
Parks	16
Park acreage	835 ⁽¹⁾
Golf courses	0
Swimming pools	1
Tennis courts	40 ⁽²⁾
Gymnasiums	7
Fire protection:	
Number of stations	8
Number of fire personnel and officers	186
Number of calls answered	619 per month (est.) ⁽³⁾
Number of inspections conducted	1430
Police protection:	
Number of stations	1
Number of police personnel and officers	219
Number of patrol units	53
Number of law violations	
Physical arrests	6,295
Traffic violations	8,759
Parking violations	8,113
Number of EMS calls	14,552

CITY OF LYNCHBURG, VIRGINIA**Table 10**
Concluded

MISCELLANEOUS STATISTICS

June 30, 2003

Unaudited

Sewerage system:	
Miles of sanitary sewers	450
Miles of storm sewers	Not Mapped
Number of service connections	17,500
Daily average treatment in gallons	14 Million
Maximum daily capacity of treatment plant in gallons	22 Million
Water system:	
Miles of water mains	400
Number of service connections	21,586
Number of fire hydrants	2,324
Daily average consumption in gallons	11 Million
Maximum daily capacity of plant in gallons	26 Million
Education:	
Number of elementary schools	10
Number of elementary school instructors	368
Number of secondary schools	5
Number of secondary school instructors	374
Number of community colleges	1
Number of universities	4
Facilities and service not included in the reporting entity:	
Hospitals:	
Number of Hospitals	2
Number of patient beds	554

⁽¹⁾ Including Blackwater Creek Natural Area.

⁽²⁾ 10 Locations with a total of 40 courts-including schools.

⁽³⁾ Fire calls only, not EMS.

COMPLIANCE SECTION



**Independent Auditors' Report on Compliance and on Internal
Control over Financial Reporting in Accordance with
*Government Auditing Standards***

To the Members of the City Council and City Manager
City of Lynchburg, Virginia

We have audited the basic financial statements of the City of Lynchburg, Virginia as of and for the year ended June 30, 2003, and have issued our report thereon dated October 30, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Lynchburg's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2003-1.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Lynchburg's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Lynchburg's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 2003-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the City in a separate letter dated October 17, 2003.

This report is intended solely for the information and use of the City Council, audit committee, management and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Cherry, Bekaert & Holland, L.L.P.

Lynchburg, Virginia
October 17, 2003



**Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major Federal Program and Internal Control
over Compliance in Accordance with OMB Circular A-133**

To the Members of the City Council and City Manager
City of Lynchburg, Virginia

Compliance

We have audited the compliance of the City of Lynchburg, Virginia with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The City of Lynchburg's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Lynchburg's management. Our responsibility is to express an opinion on the City of Lynchburg's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Lynchburg's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Lynchburg's compliance with those requirements.

As described in the accompanying schedule of findings and questioned costs in finding 2003-2, the City of Lynchburg did not comply with requirements regarding eligibility that are applicable to its Foster Care Title IV-E program. Compliance with such requirements is necessary, in our opinion, for the Foundation to comply with requirements applicable to the program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Lynchburg complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

The management of the City of Lynchburg is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Lynchburg's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City of Lynchburg's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2003-3 and 2003-4.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the City Council, audit committee, management and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Cherry, Bekant & Holland, L.L.P.

Lynchburg, Virginia
October 17, 2003



Independent Auditors' Report on Compliance with Requirements Applicable to the Passenger Facility Charge Program and on Internal Controls over Compliance in Accordance with the Passenger Facility Charge Program Audit Guide

To the Members of the City Council and City Manager
City of Lynchburg, Virginia

Compliance

We have audited the compliance of the City of Lynchburg, Virginia, with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration (Guide), for its passenger facility charge program for the year ended June 30, 2003. Compliance with the requirements of laws and regulations applicable to its passenger facility charge program is the responsibility of the City of Lynchburg's management. Our responsibility is to express an opinion on the City of Lynchburg's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about the City of Lynchburg's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Lynchburg's compliance with those requirements.

In our opinion, the City of Lynchburg, Virginia, complied, in all material respects, with the requirements referred to above that are applicable to its passenger facility charge program for the year ended June 30, 2003.

Internal Control Over Compliance

The management of the City of Lynchburg, Virginia, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws and regulations applicable to the passenger facility charge program. In planning and performing our audit, we considered the City of Lynchburg's internal control over compliance with requirements that could have a direct and material effect on the passenger facility charge program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Guide.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one of more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws and regulations that would be material in relation to the passenger facility charge program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the City Council, audit committee, management and the Federal Aviation Administration and is not intended to be and should not be used by anyone other than these specified parties.

Cherry, Beckett & Holland, L.L.P.

Lynchburg, Virginia
October 17, 2003

CITY OF LYNCHBURG, VIRGINIA

Schedule Of Findings And Questioned Costs

For the Fiscal Year Ended June 30, 2003

A. Summary of Audit Results

1. The auditor's report expresses an unqualified opinion on the financial statements of the City of Lynchburg.
2. One reportable condition relating to the audit of the financial statements is reported in the Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of the City of Lynchburg were disclosed during the audit.
4. Three reportable conditions relating to the audit of the major federal award programs are reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for the City of Lynchburg expresses a qualified opinion.
6. The programs tested as major programs were:

<u>Name of Program</u>	<u>CFDA #</u>
Community Development Block Grant, Section 108 Loan Guarantees	14.248
Foster Care Title IV-E	93.658
Social Services Block Grant	93.667
Child Care Assistance	93.575
Child Care Development	93.596
Temporary Assistance to Needy Families	93.558
EPA Grant	66.606
Special Education Title VI-B	84.027
Sliver Grant – Special Education Preschool Grant	84.173

7. The threshold for distinguishing Types A and B programs was \$733,197.
8. The City of Lynchburg was determined to be a low risk auditee.
9. Passenger Facility Charge Program:
 - a. Material weakness identified? No
 - b. Reportable condition not considered to be material weaknesses? None reported
 - c. Noncompliance material to the passenger facility charge program? No
 - d. Type of auditor's report on compliance for major programs Unqualified
- e. Any audit findings disclosed No

CITY OF LYNCHBURG, VIRGINIA

Schedule Of Findings And Questioned Costs For the Fiscal Year Ended June 30, 2003

B. Findings - Financial Statement Audit

Compliance and Internal Control Findings

2003-1 Internal control over EBT cards

Reportable Condition

Through our testing of the three required forms (Form 032-03-387/1, Form 032-03-391, and Form 032-03-390) we noted a deficiency in the separation of duties between the issuance of the EBT card and the issuance of the PIN.

Criteria

As detailed in the "EBT Policies and Procedures Guide", each local agency is responsible for maintaining separation of duties between the Eligibility Workers, Issuance Clerks, and Fiscal Staff for Electronic Benefit Transfer processes to prevent staff fraud.

Effect

A lack of separation of duties between the issuance of the EBT card and the issuance of the PIN could compromise internal control over the issuance of EBT cards.

Recommendation

The City of Lynchburg must ensure that separation of duties is maintained over the Food Stamp program. One employee must issue the EBT card, and a second employee must issue the PIN.

C. Findings and Questioned Costs - Major Federal Awards

Department of Health and Human Services - Compliance Findings

2003-2 Foster Care Title IV-E - CFDA 93.658

Reportable Condition

In 5 of the 25 cases tested for eligibility, a judicial determination was not obtained within the required time frame.

Criteria

Office of Management and Budget's (OMB) A-87 at CFR Section 1356.21(b) states that a judicial determination regarding reasonable efforts to finalize the permanency plan must be made within twelve months of the date on which the child is considered to have entered foster care and at least once every twelve months thereafter while the child is in foster care.

CITY OF LYNCHBURG, VIRGINIA

Schedule Of Findings And Questioned Costs For the Fiscal Year Ended June 30, 2003

C. Findings and Questioned Costs - Major Federal Awards (continued) Department of Health and Human Services - Compliance Findings (continued)

2003-2 Foster Care Title IV-E - CFDA 93.658 (continued)

Effect

If a judicial determination regarding reasonable efforts to finalize a permanency plan is not made within the specified timeframe, the child is ineligible at the end of the twelfth month from the date the child was considered to have entered foster care or at the end of the month in which the subsequent judicial determination of reasonable efforts was due, and the child remains ineligible until such a judicial determination is made.

Recommendation

Procedures should be implemented to assure that foster care files are reviewed for timely judicial determinations.

Questioned Costs

Not significant.

Department of Health and Human Services – Internal Control Findings

2003-3 Temporary Assistance to Needy Families - CFDA 93.558

Reportable Condition

In 5 of the 12 disbursements tested, a Temporary Assistance for Needy Families (TANF) replacement check was issued without a Financial Management Form in the file.

Criteria

Internal controls should be in place to ensure that the City of Lynchburg can provide supporting documentation for each disbursement in order to demonstrate compliance with laws, regulations, and other compliance requirements. Per the City of Lynchburg internal control procedures detailed in "TANF Checks Reported Lost or Stolen by Payee", the Social Services Accounting Department can process a locally issued check after receiving a Case Action and Financial Maintenance Form from the Eligibility Worker. This documentation should be retained in the case file.

CITY OF LYNCHBURG, VIRGINIA
Schedule Of Findings And Questioned Costs
For the Fiscal Year Ended June 30, 2003

C. Findings and Questioned Costs - Major Federal Awards (continued)

**Department of Health and Human Services – Internal Control Findings
(continued)**

2003-3 Temporary Assistance to Needy Families - CFDA 93.558 (continued)

Effect

Without the proper supporting documentation, duplicate benefit checks could be disbursed.

Recommendation

Appropriate steps should be taken to determine that established procedures for issuing TANF replacement checks are being followed and that the internal controls are being implemented consistently.

Questioned Costs

Not significant.

2003-4 Temporary Assistance to Needy Families - CFDA 93.558

Reportable Condition

Nine of the 12 disbursements tested, representing local replacement checks, could not be traced to the monthly Local Reimbursement Report requesting reimbursement from the Department of Social Services.

Criteria

The City of Lynchburg prepares a monthly Local Reimbursement Report which it submits to the Department of Social Services to request reimbursement for the state and federal share of benefits disbursed. The City of Lynchburg is required to maintain warrant registers supporting the amounts reported on this report.

Effect

Since the amount requested for reimbursement on the Local Reimbursement Report cannot be reconciled to the warrant register, the amount requested for reimbursement may be greater or less than the actual benefits disbursed.

Recommendation

Procedures should be implemented to reconcile the TANF replacement checks reported on the warrant registers to the monthly Local Reimbursement Report.

Questioned Costs

Not significant.

D. Findings – Passenger Facility Charge Program

None